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Report of the Auditor General of Canada to the House of Commons

Foreword and Main Points



April 2000

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This April 2000 Report comprises 9 chapters as well as a Foreword and Main Points. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

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AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

The Honourable Gilbert Parent, M.P.
Speaker of the House of Commons

I have the honour to transmit herewith my first Report of 2000 to the House of Commons, to be laid before the House in accordance with the provisions of subsection 7(5) of the *Auditor General Act*.

L. Denis Desautels, FCA
Auditor General of Canada

OTTAWA, 11 April 2000

April 2000

Foreword and Main Points

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Report of the Auditor General to the House of Commons for April 2000

Foreword

I am pleased to present the April volume of my 2000 Report. Bound with this Foreword are the Main Points of 9 separately issued chapters:

1. Service Quality
2. Human Resources Development Canada – Service Quality at the Local Level
3. Citizenship and Immigration Canada – The Economic Component of the Canadian Immigration Program
4. Indian and Northern Affairs Canada – Elementary and Secondary Education
5. Canada Customs and Revenue Agency – Travellers to Canada: Managing the Risks at Ports of Entry
6. Canada Customs and Revenue Agency and Department of Finance – Handling Tax Credit Claims for Scientific Research and Experimental Development
7. Royal Canadian Mounted Police – Services for Canada's Law Enforcement Community
8. Department of Finance – Managing Canada's Debt: Facing New Challenges
9. Streamlining the Human Resource Management Regime: A Study of Changing Roles and Responsibilities

In my first Report of 2000, it is not surprising that a common element in these chapters is the challenge facing each of the departments and agencies we examined — keeping pace with a rapidly changing environment in which they do business.

To be able to adapt readily to change, they must know whether what they are doing still works. This means they must know clearly what they are trying to achieve and, where they work in collaboration with others, what each is supposed to do.

Departments and agencies also need to know the risks their environment presents. They need to target their resources appropriately to areas where the risks are highest. And they need to train their people and give them the tools to manage those risks.

Finally, they need to continually measure their performance. If they find they are not getting the results they want, they need to act with a sense of urgency to make the necessary adjustments.

The chapters in this Report show mixed performance. Some of the organizations we examined are doing some of these things; none is doing all of them. What is most worrisome is that some of the most serious problems we found are the same ones reported, by this Office and others, ten or more years ago. These problems need action now. And departments and agencies can help to avoid new problems ahead if they will incorporate the measures outlined above.

Service Quality

Chapter 1 – Main Points

1.1 The purpose of our audit was to see whether the federal government is providing better quality of service to Canadians, after a decade of commitments and a series of initiatives to improve it. In 1996, we provided a midcourse assessment of the government's progress. In the current audit, we revisited the same 13 services delivered by 10 government departments and agencies.

1.2 The most significant improvement since 1996 has been to make telephone services more accessible. Canadians are now able to obtain faster responses to their enquiries once their calls are answered. Despite that improvement, however, we are concerned by the high percentage of calls not answered when lines are busy and calls abandoned while the caller waits on hold to speak to an agent. At the Canada Customs and Revenue Agency (Taxation) the percentage of unanswered calls remains high at 54 percent, although it has improved since 1996, when it was 73 percent.

1.3 For most services delivered by means other than telephone, such as counter service, there was not enough performance information for us to determine whether service has improved. The Passport Office has measured some of its key results and demonstrated significant improvement in its performance. Many departments and agencies have taken initiatives since 1996 to improve service but have not sufficiently measured the results.

1.4 Departments and agencies need to consult more with their clients to identify the aspects of service that matter most to them, as well as the quality of service they expect. This information would help the service providers establish appropriate targets and indicators of performance to measure.

1.5 Communication to clients at points of service has improved since 1996. Canadians visiting these offices are better informed about the level of service they can expect. However, more attention is needed to informing them on what it costs to provide the services, whether targets have been met and how they can lodge and resolve complaints.

Background and other observations

1.6 The demand by Canadians for services of the federal government — such as enquiries about citizenship and immigration, Old Age Security, passports, weather or statistical information — has increased significantly since 1996. Volumes of service are higher in 10 of 13 service lines we audited. At the same time, the environment for delivering services continues to evolve with rapid advances in information technology and growing use of alternative methods of service delivery.

1.7 Telephone services have become increasingly prominent, while the use of counter services has declined. In the government telephone services we audited, the volume of telephone enquires climbed from 36 million in 1996 to 56 million in 1999, an increase of 54 percent. The numbers of written enquiries (mail, fax and e-mail), while still important in some services lines, are generally much lower.

1.8 Although service managers have acted on our 1996 recommendations and sought ways to make continuous improvements, none of the recommendations has been implemented fully. However, we noted a shift among public service managers and staff toward a stronger focus on service and innovation.

1.9 We were discouraged to find slow progress on the project to improve the government's telephone directory listings (the Blue Pages). The need to redesign them was identified in 1990 by the Public Service 2000 Task Force on Service to the Public.

1.10 Over the past three years, departments and agencies have provided Parliament with more information on service quality, and the information they report is more likely to be meaningful. But better information is needed on performance trends and on costs.

1.11 Since 1998, the Treasury Board Secretariat has given departments and agencies more guidance and support to improve service delivery. However, it has not systematically monitored progress across the government, and the information it has reported to Parliament has not been adequate to provide a clear understanding of progress in improving the quality of service to Canadians.

The response of the Treasury Board Secretariat on behalf of the government is included at the end of the chapter. The Secretariat indicates that the new Blue Pages telephone directory format will be implemented according to established publication schedules. The Secretariat agrees with our recommendations on measurement, client satisfaction and reporting. It indicates that it is working with departments to develop an approach designed to promote continuous improvement in service delivery across the government.

Human Resources Development Canada

Service Quality at the Local Level

Chapter 2 – Main Points

2.1 Human Resources Development Canada (HRDC) has made considerable progress in addressing service quality. National initiatives in recent years have included developing a policy to guide its approach to high-quality service, implementing a new service delivery network to make services more accessible to Canadians and setting out national service commitments to clients. Initiatives at the local level include upgrading the service-related skills of employees and using new technologies.

2.2 Although HRDC has defined national service commitments, we found they are not communicated consistently to clients at points of service. Further, local offices do not consistently inform clients about performance toward service delivery targets, the cost of services, and how to lodge complaints about the service received and obtain redress.

2.3 The Department does not have performance measures for all of its national service commitments. Measures of service performance focus on waiting time for counter services and the speed of processing and payment, but there are weaknesses in the measurement of both these indicators.

2.4 Despite improvements in the timeliness of Employment Insurance payments over the past three years, estimated incorrect payments have increased over this period from $4 to $6 for every $100 paid out. Available information shows that both underpayments and overpayments have increased for a variety of reasons, including a decline in the quality of information submitted by employers. We found that local office managers focussed mainly on speed of payment. There are neither performance targets nor measures of accuracy for the processing of claims at the local level.

2.5 Employment assistance services are increasingly provided by non-governmental organizations, under contribution agreements with HRDC. The agreements we reviewed do not set out service performance expectations or targets. Nor do they require the non-governmental organizations to be accountable for the quality of the services they provide.

2.6 There are gaps in the information the Department provides to Parliament on its performance in meeting its national service commitments. We also found gaps in the information that would help to provide context for the service performance that it does report. For example, information on the timeliness of paying Employment Insurance claims cannot be assessed in relation to information on the accuracy of payments.

Background and other observations

2.7 Almost one in three Canadians is a client of HRDC. Each year the Department processes 60 million to 80 million program claims and applications, sends about 100 million letters and pays out over $50 billion in various benefits. Most programs and services are offered at the local level, through one of the federal government's largest service delivery networks. It comprises 320 Human Resource Centres of Canada, 5,000 self-service kiosks, 21 telephone centres and 10 mail centres. Almost 80 percent of HRDC's 21,000 employees work at the local level.

2.8 To make continuous improvements in the quality of services, managers need to seek more feedback from clients at the local level through such means as client satisfaction surveys and analysis of client complaints. There is no policy for handling complaints in either the Employment Insurance Program or the Income Security Programs. However, the latter has started to develop such a policy.

2.9 The Department does not have the cost information it needs to manage the trade-off between the cost of its main services and their quality. We believe it needs to give more attention to developing and implementing action plans at the local level for continuous improvement in service quality.

The Department's responses to our recommendations are included in this chapter. For the most part, the Department agrees with the recommendations and indicates the steps that it is taking or intends to take to address them.

Citizenship and Immigration Canada

The Economic Component of the Canadian Immigration Program

Chapter 3 – Main Points

3.1 We noted serious deficiencies in the management and delivery of the economic component of the Canadian Immigration Program, whose purpose is to recruit highly qualified individuals who can readily contribute to our economy and adapt to our society. These deficiencies seriously limit Canada's ability to maximize the economic and social benefits that immigration affords, and to protect the integrity of its Immigration Program.

3.2 We found that immigration offices abroad are overtasked. They have much difficulty coping with the volumes of work and responsibilities assigned to them. Immigration levels set by the government are not met, and applicants are waiting longer and longer for their applications to be finalized — sometimes more than three years.

3.3 We noted weaknesses that leave Citizenship and Immigration Canada open to criticism of the quality and consistency of its decisions in selecting immigrants. Visa officers need better selection criteria, better training and better tools to assess immigrant applications more effectively. In addition, the Department does not sufficiently monitor the quality of their decisions. We noted significant differences in approval rates among officers processing similar cases.

3.4 Our audit revealed significant weaknesses in the management of medical assessments of prospective immigrants. Since our last audit in 1990, the Department and Health Canada have been unable to take a position on whether changes to standards for medical examinations are required to determine if an applicant poses a danger to public health and safety, or could place excessive demand on health care systems or social services. The same routine tests have been required for the last 40 years and the departments have not decided whether applicants should be routinely tested for any infectious diseases other than syphilis and tuberculosis. We are also very concerned about the lack of rigour and consistency in the overall management of medical assessment activities, including the procedures for supervising the designated local physicians who perform medical examinations of prospective immigrants abroad.

3.5 There are serious constraints on establishing criminality and security admissibility of prospective immigrants. Visa officers have little information and support to ensure that applicants are not likely to engage in criminal activities or endanger the safety of Canadians. Some people are thus admitted to Canada without reasonable assurance that they have not committed crimes abroad, engaged in espionage, subversion or terrorism, or been associated with organized crime.

3.6 The Department is particularly vulnerable to fraud and abuse. It has no effective measures in place to discourage people from submitting fraudulent applications, and visa officers often resort to detection methods that are costly. In addition, we found inadequate control over revenues, visa forms and computer systems.

3.7 Employees responsible for processing immigrant applications in offices abroad are deeply concerned about the present state of affairs. They feel they are not only going against their own values but also making decisions that could carry risks that are too high and that could entail significant costs for Canadian society.

3.8 Overall, it is highly questionable whether the Department has the resources and the operational capacity it needs to carry out the tasks required to meet the annual immigration levels set by the government.

Background and other observations

3.9 Citizenship and Immigration Canada is responsible for, among other things, setting immigration policy, selecting immigrants, and evaluating visitors' applications abroad. It also protects Canadians' health and safety by intercepting individuals who are not entitled to enter or remain in Canada, and returning them to their country of origin.

3.10 In 1999, approximately 190,000 immigrants were admitted to Canada. There are four broad components in the Immigration Program: family, economic, refugee, and other. Our audit focussed on the economic component, which accounts for 56 percent of landed immigrants each year. This component is aimed at recruiting skilled workers and business immigrants.

3.11 Immigration services abroad are provided through a complex network of 81 offices in Canadian embassies, high commissions and consulates. About 210 Canadian officers and 980 locally engaged staff work in these offices and process a large volume of immigration visas, visitor visas, and student and temporary employment authorizations each year. Several other federal departments and agencies also have responsibility for results achieved in the Immigration Program, including the Department of Foreign Affairs and International Trade, the Canadian Security Intelligence Service, the Royal Canadian Mounted Police and Health Canada.

3.12 It is disappointing to note that several of the deficiencies discussed in this chapter are similar to those we reported in 1990. Over the years, the government and the Department have undertaken a number of initiatives to remedy the situation, but without much success.

3.13 This situation requires immediate attention by both the Department and the government. On the one hand, the Department must improve its efficiency in processing immigrant applications. Offices abroad are buried in paperwork, and their outdated technology is a serious obstacle to improving performance. The Department needs much better information on the resources required to fulfil its responsibilities in processing applications. On the other hand, a significant investment of resources may be needed to correct the deficiencies we noted and to allow the Department to realize the potential efficiency gains we identified. It is particularly essential that in deciding on annual immigration levels, the government ensure a proper balance between the resources allocated to the Department and its federal partners and the workload required to meet those levels.

3.14 The Department's current review of the *Immigration Act* provides an excellent opportunity to correct some of the deficiencies. However, the challenge for the government and the Department is enormous and complex. Since Parliament has expressed a particular interest in the Program by requiring the tabling of an annual immigration plan, we encourage parliamentarians to follow the situation closely.

The responses of Citizenship and Immigration Canada, Health Canada, the Royal Canadian Mounted Police, the Canadian Security Intelligence Service and the Department of Foreign Affairs and International Trade are included in this chapter. They agree with our recommendations and note that initiatives are under way in several areas.

Indian and Northern Affairs Canada

Elementary and Secondary Education

Chapter 4 – Main Points

4.1 Indian and Northern Affairs Canada cannot demonstrate that it meets its stated objective to assist First Nations students living on reserves in achieving their educational needs and aspirations. For example, the Department does not have the necessary assurance that First Nations students are receiving culturally appropriate education. Moreover, the progress in closing the education gap for Indian students living on reserves has been unacceptably slow. At the current rate of progress, it will take over 20 years for them to reach parity in academic achievement with other Canadians.

4.2 To obtain assurance and effectively discharge its responsibilities, the Department needs to resolve several major issues. These include the need to articulate its role in education, to develop and use appropriate performance measures and to improve operational performance. In addressing these issues, the Department will need to further take into account the cultural and special needs of Indian students as well as socio-economic factors that can affect success in education.

4.3 The situation is complex and urgent, and the urgency will increase as more demands are placed on education as a result of an increasing population on reserves, and changes in technology and in provincial education programs upon which the Department relies. Although the Department has identified or started several projects for education reform, it must still respond with significant action to resolve these issues.

Background and other observations

4.4 The Department is empowered to take an active role in the provision of elementary and secondary education for Indian children living on reserves. Although it has chosen to rely on First Nations and the provinces for the design and delivery of appropriate education, the Department acknowledges that this approach does not diminish its responsibility and accountability.

4.5 For more than 100 years, various statutes, Indian treaties and government policies have shaped the mandate and responsibilities of Indian and Northern Affairs Canada for education.

4.6 Presently, about 117,000 students enrolled in elementary and secondary schools live on reserves. Current budgeted costs, not including school construction and maintenance, are about $1 billion annually.

Indian and Northern Affairs Canada acknowledges the importance of the issues identified in this chapter. It believes that Gathering Strength — Canada's Aboriginal Action Plan, and other planned education initiatives involving the Department, First Nations and provincial governments, will help close the education gap cited in this chapter.

Canada Customs and Revenue Agency

Travellers to Canada: Managing the Risks at Ports of Entry

Chapter 5 – Main Points

5.1 The Canada Customs and Revenue Agency has many efforts under way to modernize its Customs operations and to make effective use of technology. However, we found that it needs to make some significant improvements.

5.2 A well-articulated and comprehensive compliance strategy is a key element of promoting compliance. Customs does not yet have an overall compliance strategy that clearly describes its plans for encouraging voluntary compliance and that outlines its approach to responsible enforcement.

5.3 We found that risk assessment is incomplete: Customs does not have important information it needs from a variety of departments and agencies to fully assess the risks its inspectors face. It needs to know where the risks are highest so it can determine the best way to control them. We have recommended that Customs work more diligently to obtain information on the risks arising from the responsibilities it carries out at ports of entry on behalf of other departments — Citizenship and Immigration Canada, Health Canada and the Canadian Food Inspection Agency, for example — and include them in its national risk assessment. It also needs to have up-to-date memoranda of understanding with those departments, setting out their respective roles and responsibilities.

5.4 We also found that Customs inspectors at the border and at airports need to be better equipped to do their complex job. They must enforce customs and excise legislation and make a variety of decisions for many other government departments. In processing travellers, Customs inspectors have only a short time to make these decisions. Customs does have information, systems and training to assist its officers but the information is not shared consistently, the systems need improvement and the training is uneven.

Background and other observations

5.5 In 1998–99 the Customs program of the Canada Customs and Revenue Agency processed over 104 million travellers who entered Canada at ports of entry. About half were returning Canadian residents. Most travellers enter Canada by highway from the United States (79 percent) or at airports (17 percent). Since 1991–92 the number of travellers coming by highway has decreased, while the number of air travellers has grown by almost 48 percent, owing partly to the Canada-United States Open Skies Agreement.

5.6 Over the years, Customs' role has evolved from mainly collecting revenue to one of facilitating the entry of travellers and goods, while protecting Canadian society and promoting the competitiveness of Canadian businesses.

5.7 Customs operates in an environment that continues to change. To help it deal with change, it developed discussion papers in 1990 and again in 1998 as blueprints for the direction it would take in the future and the initiatives it would employ. Customs has taken some major steps toward reaching the goals it set for itself in 1990. It recently released a draft five-year action plan to implement the initiatives identified in its 1998 discussion paper.

The Canada Customs and Revenue Agency's responses to our recommendations are included in the chapter. The Agency agrees with the seven recommendations, and its responses describe a number of actions under way to deal with them.

Canada Customs and Revenue Agency and Department of Finance

Handling Tax Credit Claims for Scientific Research and Experimental Development

Chapter 6 – Main Points

6.1 In 1994 the government restricted the period for filing tax credit claims for scientific research and experimental development (SR&ED) to 18 months after the year in which taxpayers incurred them. The Canada Customs and Revenue Agency then received 16,000 additional claims, which represented $2.8 billion in credits for taxation years as far back as 1985.

6.2 Our audit revealed significant inconsistencies in the handling of these claims. These inconsistencies compromised the fairness of the review process. In addition, serious professional differences of opinion arose within the Agency on how to resolve a dispute with a claimant over a significant claim. The Agency did not demonstrate that it had effective mechanisms to resolve this type of difference among its officers on individual cases.

6.3 The lack of clarity about the eligibility of SR&ED projects has resulted in unresolved claims dating back to 1985. The claimed tax credits amount to hundreds of millions of dollars. Since the creation of the SR&ED program, there have been disagreements between claimants and administrators and among administrators on what constitutes an eligible activity or project, how thoroughly a science officer should review a claim and how much documentation is necessary to support a claim. Clearer rules are urgently needed to deliver and administer the program effectively and efficiently.

6.4 The Agency has recognized the need to improve the administration of the program. To this end, after consulting stakeholders, the Minister of National Revenue released an action plan in November 1998. The Agency created a new Directorate and appointed a new head of the program.

6.5 According to our audit, the Agency needs to improve the assessment of the risk that taxpayers' claims are ineligible so that science and audit staff can focus on claims with the highest risk. The Agency manages the risk of ineligibility by conducting completeness checks, risk assessments, audits and science reviews.

6.6 An evaluation of the SR&ED program, done by the Department of Finance and the Agency, may have overstated the impact of the program in generating additional spending on SR&ED. The evaluation also indicated that the program generated only a net increase in Canada's real income of between $20 million and $55 million per year.

Background and other observations

6.7 The federal government encourages research and development in the private sector through tax incentives. Taxpayers receive tax credits once they have incurred expenses on their projects.

6.8 The Agency's information systems show that in 1997 about 11,000 corporations and individual taxpayers claimed over $10 billion in SR&ED expenses and $2 billion in tax credits. Large corporations claimed 85 percent of total expenses.

6.9 A staff of 144 science advisors and 268 financial auditors review claims in 37 tax services offices across the country. Advisors determine whether the work is eligible under the program and auditors examine whether the related costs qualify.

6.10 A key objective of the Agency's 1998 action plan was to reduce uncertainty about the eligibility of science projects. As a result, the Agency and industry proposed a definition of an SR&ED project that, in our view, modifies the level of eligible SR&ED work and expenses and that could result in additional costs in tax credits. If any significant changes were made to the definition of an SR&ED project, they would need to be reviewed by the Department of Finance, which is responsible for the program's policy objectives, costs and related legislation.

The responses of the Canada Customs and Revenue Agency and the Department of Finance are included in the chapter. Their responses describe the action they have taken and will continue to take to address our recommendations.

Royal Canadian Mounted Police

Services for Canada's Law Enforcement Community

Chapter 7 – Main Points

7.1 The levels of service that the RCMP provides to the Canadian law enforcement community do not meet the needs of its clients. For example, the Canadian Police Information Centre (CPIC), a backbone system that provides information to police officers, courts, prisons and parole officers, was unavailable regionally or nationally 11 percent of the time last year. DNA analysis takes too long and is limited to only the most important cases. Thus, its full potential for public safety is not being realized. Backlogs of up to two months exist for inputting criminal history records and fingerprints into data banks. As a consequence, the criminal records and fingerprint data available to the police and others are not current. In addition, criminal record checks required by employers or volunteer organizations take too long.

7.2 It is imperative that senior management at the RCMP take action to eliminate backlogs in many of the services and improve efficiency. In particular, the RCMP needs to rationalize the number of laboratories in order to improve their level of service. Significant improvement is also required in performance measurement and the reporting of results. It is important that users, senior RCMP management and Parliament know these results.

7.3 The arrangement between the federal government and the provinces set in 1966 for these services needs to be rethought. It is time for a clear agreement among all the players in the law enforcement community — in the federal, provincial and municipal governments — on level of service, funding arrangements, user input, management and accountability. A new agreement will require the collaboration of all parties.

Background and other observations

7.4 The RCMP provides a range of services that are essential to the Canadian law enforcement community: police, courts, prisons and parole boards. These services include fingerprint identification, criminal history records, forensic laboratories, criminal intelligence and on-line access to data banks such as vehicle registration, drivers' licences, wanted persons and stolen property. In 1998–99, the RCMP spent approximately $122 million on these services.

7.5 There are a number of areas where the RCMP deserves credit for the way it has operated these services: it has kept the old CPIC information system operational while awaiting a new system; it has implemented new forensic techniques such as DNA analysis; it is developing a data bank for DNA; and it has made major upgrades to fingerprint identification and criminal history records systems.

7.6 Our last audit of services to the law enforcement community was in 1990. We made a number of recommendations to improve operational economy and efficiency. Attention has only recently been paid to many of our recommendations and others have not been addressed. These national services have also been reviewed several times over the past decade by the Solicitor General Canada, the Treasury Board Secretariat and the RCMP itself.

The RCMP agrees with the findings and indicates that it will be taking action.

Department of Finance

Managing Canada's Debt: Facing New Challenges

Chapter 8 – Main Points

8.1 Canada's debt management program is a well-run operation overall. But like any program that faces a changing environment, it needs to adjust. We have noted three areas where the Department of Finance needs to review its practices. These include:

- establishing a more complete range of performance measures to ensure that it has a sound basis for assessing how well the program is doing at meeting its objectives. Currently, the Department uses a variety of information internally but reports its performance for only one target — the ratio of fixed-rate debt to the total debt, now at two thirds;
- improving transparency to ensure that that there is a public accounting of not only the benefits of decisions on all aspects of debt management but also the costs. In recent years, the government significantly increased the proportion of fixed-rate debt and the level of foreign exchange reserves, and established targets for retail debt — all without disclosing the expected costs of these decisions; and
- modifying the management of strategic planning by consulting a range of outside experts to ensure that the Department obtains complete and independent advice.

Background and other observations

8.2 At the end of 1998–99, Canada's interest-bearing debt stood at $595 billion and the annual interest charges on that debt amounted to $41.4 billion. Managing the debt is the responsibility of the Department of Finance, working in conjunction with the Bank of Canada and the Canada Investment and Savings agency.

8.3 The principal objective of the debt management program is to provide stable, low-cost funding for government operations while keeping liquid the domestic markets for that debt. Another objective is to ensure that there are adequate reserves in the Exchange Fund Account to moderate volatility in the exchange rate on the Canadian dollar.

8.4 We found that the people who manage this program are a highly committed group. They closely monitor fiscal and economic developments that could affect debt management operations, and they consult regularly with financial market participants. They use sophisticated modelling techniques to identify debt management risks and to choose appropriate debt strategies.

8.5 Our audit dealt not so much with the choices debt managers make or the analysis underlying those choices as with the way they measure performance, the information they report, and the governance of the program.

8.6 Over the last few years, the government has made some major decisions in managing the federal debt. It has increased the proportion of longer-term, fixed-rate debt to two thirds of the total, some 18 percent higher than three years ago. While fixed-rate, longer-term debt makes the government's interest costs more predictable and reduces rollover risk, it generally costs more because long-term interest rates are normally higher than short-term rates.

8.7 Over the same three-year period, Canada's foreign exchange reserves have more than doubled, to US$25 billion. A higher level of foreign reserves improves the government's ability to promote stability in the value of the Canadian dollar, and also provides a larger pool of funds that can be used to finance unanticipated needs. But this comes at a cost, because the interest paid on foreign currency borrowing is normally higher than the interest earned on foreign reserve assets.

8.8 We also looked at retail debt — the sale of Canada Savings Bonds and Canada Premium Bonds. We noted that despite renewed attention to the sale of these bonds and the creation of a special operating agency to market them aggressively, we have seen no conclusive evidence that retail debt is cost-effective. We encourage the government to review the role of the retail debt program and its cost implications. We also encourage the government to disclose the results of this review when it completes it.

The Department's response to our recommendations are included in this chapter. For the most part, the Department accepts the thrust of our recommendations and indicates how it is responding to them.

Streamlining the Human Resource Management Regime

A Study of Changing Roles and Responsibilities

Chapter 9 – Main Points

9.1 We undertook this study to draw to Parliament's attention the urgent need to deal with long-standing issues and emerging challenges for human resource management in the public service.

9.2 The current framework governing human resource management in the "core" public service is unduly complex and outdated. Administrative systems are cumbersome, costly and outmoded. The framework is ill suited to an environment that demands flexibility and adaptability — an environment that faces significant challenges in human resource management and an increasingly competitive labour market.

9.3 Public service staffing is a major source of frustration both to managers and to employees. The system is rule-bound and inefficient. Managers need to have more authority in staffing, but they also must be more clearly accountable for their decisions. The interests of employees must be respected, but there is a pressing need to modernize and streamline the processes for staffing and related recourse.

9.4 Concerns about "fractured responsibility" for human resource management are long-standing. Responsibility and accountability for the changes needed to simplify, streamline and strengthen the current human resource management regime need to be clearly assigned and appropriately supported. This is particularly important in areas of divided responsibility.

- In human resource management, deputy ministers — leaders of the major organizations of government — have been seen as primarily responsible for administering a centrally prescribed framework. A significant step in their role is needed. Deputies should have pivotal responsibility for developing and maintaining a healthy work environment in their departments, and their responsibilities for human resource management need to be set out formally. Deputy ministers should be clearly accountable for the way their departments perform these responsibilities.
- The Public Service Commission needs to engage in an active dialogue with Parliament about changes in its activities and in the way it carries out its responsibilities for merit protection. This dialogue should encompass legislative reform of staffing. The Commission also needs to improve its reporting on departmental performance in adhering to the provisions and principles of the *Public Service Employment Act*.
- There is a need for the Treasury Board to strengthen its reporting to Parliament on the aspects of human resource management for which it is responsible. As well, there is a need to clarify the responsibility of deputies for reporting on the quality and effectiveness of human resource management in their departments.

Background and other observations

9.5 The core public service is now substantially smaller than at any time since the early 1970s. It has diminished by almost 100,000 employees in the last 10 years, to about 143,000 employees by the end of 1999. Government downsizing, devolution, privatization, limited recruitment and other measures were factors in this reduction. More than 50,000 public servants have moved from the "core" public service (for which Treasury Board acts as the employer) to "separate employers" like the Canada Customs and Revenue Agency.

9.6 Knowledge workers now constitute 55 percent of public servants (up from about 33 percent 15 years ago). They are bringing new expectations to the workplace, heightening the need for change.

9.7 The percentage of public service employees aged 45 to 54 has almost doubled over the last 14 years, and 70 percent of executives could retire within 10 years. This is generating concern about a potential leadership crisis. Moreover, youth are underrepresented: the percentage of public servants under 35 years of age is roughly half that in the Canadian work force.

9.8 In 1996, the Treasury Board Secretariat estimated that there were 840 separate pay rates and 70,000 rules governing pay and benefits. In 1997, there were more than 12,000 pages of instructions in the Treasury Board's personnel and pay administration manuals. It takes 119 calendar days on average to complete a closed competition in the core public service, not including added time to deal with any appeals. This is about twice as long as reported by selected quasi-public organizations. For a new position that needs to be classified, staffing takes 230 calendar days on average — almost eight months.

In its corporate response, the government agrees on the need for a strong human resource management framework and on the importance of the health of the public service. It is more optimistic than the Auditor General on some matters, and notes recent initiatives to address some issues. In a supplementary response, the Public Service Commission indicated its continuing efforts to improve staffing systems and to engage in a dialogue with Parliament.

Report of the Auditor General of Canada to the House of Commons – 2000

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Contexte et autres observations

9.5 Le « noyau » de la fonction publique est maintenant beaucoup plus petit qu'il ne l'a été depuis le début des années 1970. Au cours des dix dernières années, il a diminué de près de 100 000 employés et comptait quelque 143 000 employés à la fin de 1999. La réduction des effectifs, la dévolution, la privatisation, le recrutement limité et d'autres mesures ont contribué à cette diminution. Plus de 50 000 fonctionnaires ont quitté le « noyau » de la fonction publique (dont le Conseil du Trésor est l'employeur) pour des « employeurs distincts » comme l'Agence des douanes et du revenu du Canada.

9.6 Les travailleurs du savoir représentent maintenant 55 p. 100 des fonctionnaires (en hausse par rapport à 33 p. 100 il y a 15 ans). Ils nourrissent de nouvelles attentes à l'égard du milieu de travail, qui rendent les changements encore plus nécessaires.

9.7 Le pourcentage des fonctionnaires âgés de 45 à 54 ans a pratiquement doublé au cours des 14 dernières années. En outre, d'ici une dizaine d'années, 70 p. 100 des hauts fonctionnaires seront admissibles à la retraite. Cela laisse présager une crise du leadership. De plus, les jeunes sont sous-représentés : le pourcentage des fonctionnaires de moins de 35 ans est à peu près la moitié de celui de la main-d'oeuvre canadienne.

9.8 En 1996, le Secrétariat du Conseil du Trésor estimait qu'il existait 840 taux de rémunération distincts et 70 000 règles régissant la paie et les avantages sociaux. En 1997, les manuels du personnel et d'administration de la paie du Conseil du Trésor comptaient plus de 12 000 pages d'instructions. Il faut 119 jours civils en moyenne pour mener à terme un concours interne dans le « noyau » de la fonction publique, sans compter le temps de traitement des appels. C'est à peu près deux fois plus que le temps qu'il n'en faut dans certaines organisations quasi publiques, selon celles-ci. Pour un nouveau poste qui doit être classifié, la dotation exige 230 jours civils en moyenne — près de huit mois.

Dans sa réponse commune, le gouvernement convient de la nécessité d'un cadre solide pour la gestion des ressources humaines et de l'importance d'une fonction publique saine. Il est plus optimiste que le vérificateur général face à certaines questions et fait mention de récentes initiatives visant à régler certains problèmes. Dans sa réponse complémentaire, la Commission de la fonction publique a indiqué qu'elle poursuivait ses efforts pour améliorer les systèmes de dotation et pour amorcer un dialogue avec le Parlement.

La rationalisation du régime de gestion des ressources humaines

Une étude de l'évolution des rôles et des responsabilités

Chapitre 9 – Points saillants

9.1 Nous avons réalisé cette étude pour attirer l'attention du Parlement sur l'urgence de régler des problèmes de longue date et de s'attaquer aux nouveaux défis liés à la gestion des ressources humaines dans la fonction publique.

9.2 Le cadre actuel qui régit la gestion des ressources humaines dans le « noyau » de la fonction publique est dépassé et indûment complexe. Les systèmes administratifs sont lourds, coûteux et désuets. Ce cadre ne convient pas à un environnement qui exige souplesse et adaptabilité et qui est confronté à des défis majeurs en matière de gestion des ressources humaines et à un marché du travail de plus en plus concurrentiel.

9.3 La dotation dans la fonction publique est une source importante de frustration tant pour les gestionnaires que pour les employés. Le système, axé sur les règles, est inefficient. Les gestionnaires doivent posséder plus de pouvoirs en matière de dotation, mais ils doivent également être tenus de rendre compte de leurs décisions, et ce, de façon plus claire. Les intérêts des employés doivent être respectés, mais il est urgent de moderniser et de rationaliser le système de dotation et les mécanismes de recours connexes.

9.4 Depuis longtemps, on s'inquiète au sujet de la « responsabilité éparpillée » en matière de gestion des ressources humaines. La responsabilité et l'obligation de rendre compte des changements nécessaires pour simplifier, rationaliser et renforcer le régime actuel de gestion des ressources humaines doivent être clairement attribuées et appuyées adéquatement. Cela est particulièrement important dans les domaines où la responsabilité est divisée.

- Dans la gestion des ressources humaines, les sous-ministres — les dirigeants des principales organisations du gouvernement — sont considérés comme étant responsables avant tout de l'administration d'un cadre prescrit par les organismes centraux. Le rôle des sous-ministres doit évoluer de façon importante. Ils doivent être les principaux responsables de l'établissement et du maintien d'un milieu de travail sain dans leurs ministères et leurs responsabilités à l'égard de la gestion des ressources humaines doivent être énoncées officiellement. Les sous-ministres doivent être tenus de rendre compte de la façon dont leurs ministères s'acquittent de ces responsabilités, et ce, de façon claire.
- La Commission de la fonction publique doit engager un dialogue avec le Parlement sur les changements à apporter à ses activités et à la façon de s'acquitter de ses responsabilités pour assurer la protection du principe du mérite. Ce dialogue doit porter sur la nécessité d'une réforme législative de la dotation. La Commission doit aussi améliorer l'information communiquée sur le rendement des ministères quant au respect des dispositions et des principes de la *Loi sur l'emploi dans la fonction publique*.
- Le Conseil du Trésor doit améliorer l'information qu'il communique au Parlement sur les aspects de la gestion des ressources humaines dont il est responsable. De plus, il faut préciser la responsabilité des sous-ministres quant à l'information communiquée sur la qualité et l'efficacité de la gestion des ressources humaines de leurs ministères.

8.7 Au cours de la même période de trois ans, les réserves de liquidités internationales du Canada ont plus que doublé, pour s'établir à 25 milliards de dollars US. Un niveau élevé de réserves de liquidités internationales améliore la capacité du gouvernement de favoriser la stabilité de la valeur du dollar canadien et fournit également un large réservoir de fonds qui peuvent être utilisés pour financer les besoins imprévus. Cependant, il y a un coût à cela, car l'intérêt payé sur les emprunts en devises étrangères est généralement plus élevé que l'intérêt gagné sur les actifs en devises.

8.8 Nous avons examiné également la vente des titres au détail — les obligations d'épargne du Canada et les obligations à prime du Canada. Nous avons remarqué que, malgré les efforts de marketing déployés récemment pour ces obligations et la création d'un organisme de service spécial pour les commercialiser de façon dynamique, rien ne prouve de façon concluante que le programme des titres au détail est rentable. Nous encourageons le gouvernement à réexaminer le rôle du programme des titres au détail et ses répercussions sur les coûts. Nous l'encourageons également à communiquer les résultats de cet examen lorsqu'il l'aura réalisé.

Les réponses du Ministère à nos recommandations sont incluses dans le chapitre. Le Ministère accepte l'esprit de nos recommandations, en majeure partie, et indique comment il compte y répondre.

Ministère des Finances

La gestion de la dette du Canada : les nouveaux défis à relever

Chapitre 8 – Points saillants

8.1 Le programme de gestion de la dette du Canada est une activité bien gérée dans l'ensemble. Cependant, à l'instar de tout programme, il faut l'adapter à l'évolution de son environnement. Nous avons constaté trois secteurs où le ministère des Finances doit revoir ses pratiques. Il doit notamment :

- établir un éventail plus complet de mesures du rendement pour garantir qu'il possède une base fiable pour évaluer la mesure dans laquelle le programme atteint ses objectifs. À l'heure actuelle, le Ministère se sert d'un éventail de données à l'interne, mais il rend compte de son rendement pour un seul objectif, soit le ratio de la dette à taux fixe à la dette totale, maintenant aux deux tiers;
- améliorer la transparence pour assurer la reddition de comptes au public non seulement des avantages, mais également des coûts des décisions portant sur tous les aspects de la gestion de la dette. Au cours des dernières années, le gouvernement a augmenté considérablement la part de la dette à taux fixe et le niveau des réserves de liquidités internationales, et il a établi des objectifs pour les titres au détail — mais sans divulguer les coûts prévus de ces décisions;
- modifier la gestion de la planification stratégique en consultant un éventail de spécialistes de l'extérieur pour avoir l'assurance d'obtenir des conseils complets et indépendants.

Contexte et autres observations

8.2 À la fin de 1998–1999, la dette portant intérêt du Canada s'établissait à 595 milliards de dollars et les frais d'intérêt annuels, à 41,4 milliards de dollars. La gestion de la dette est la responsabilité du ministère des Finances, en collaboration avec la Banque du Canada et Placements Épargne Canada.

8.3 Le principal objectif du programme de gestion de la dette est de fournir à l'État un financement stable, à faible coût, tout en maintenant la liquidité des marchés nationaux pour cette dette. Un autre objectif est de garantir l'existence de réserves suffisantes dans le Compte du fonds des changes pour atténuer la volatilité du taux de change sur le dollar canadien.

8.4 Nous avons constaté que le groupe de personnes qui gèrent ce programme sont fort dévouées. Elles surveillent étroitement l'évolution de la situation financière et économique qui pourrait influer sur les activités de gestion de la dette et elles consultent régulièrement les opérateurs des marchés financiers. Elles se servent de techniques de modélisation de pointe pour déterminer les risques que pose la gestion de la dette et choisir des stratégies appropriées à cet égard.

8.5 Notre vérification a porté sur la façon dont les gestionnaires de la dette mesurent le rendement, sur l'information qu'ils communiquent et sur la régie du programme, plutôt que sur les choix qu'ils font ou les analyses qui justifient ces choix.

8.6 Au cours des dernières années, le gouvernement a pris d'importantes décisions concernant la gestion de la dette fédérale. Il a augmenté la part de la dette à taux fixe à plus long terme pour la porter aux deux tiers de la dette totale, ce qui représente quelque 18 p. 100 de plus qu'il y a trois ans. Si des titres à taux fixe à plus long terme rendent les coûts de l'intérêt plus prévisibles et réduisent le risque de refinancement, ils sont généralement plus coûteux, car les taux d'intérêt à long terme sont normalement plus élevés que les taux d'intérêt à court terme.

ont été laissées pour compte. Les services nationaux de la GRC ont été, au cours de la dernière décennie, examinés à diverses reprises par Solliciteur général Canada, le Secrétariat du Conseil du Trésor et la GRC elle-même.

La GRC est d'accord avec les constatations et indique qu'elle prendra des mesures pour remédier aux problèmes.

Gendarmerie royale du Canada

Les services offerts aux responsables de l'application de la loi

Chapitre 7 – Points saillants

7.1 Le niveau de service que la Gendarmerie royale du Canada (GRC) offre aux responsables de l'application de la loi ne répond pas aux besoins de cette clientèle. Par exemple, le Centre d'information de la police canadienne, un système d'une importance capitale qui fournit des renseignements aux policiers, aux tribunaux, aux établissements correctionnels et aux agents de libération conditionnelle, était inaccessible 11 p. 100 du temps l'an dernier, à l'échelle régionale ou nationale. Les analyses d'empreintes génétiques (analyses de l'ADN) prennent trop de temps et ne sont utilisées que dans les cas les plus graves. On ne tire donc pas pleinement profit de cette technique pour le renforcement de la sécurité publique. Les casiers judiciaires et les dossiers d'empreintes digitales dont il faut assurer la saisie dans les banques de données s'accumulent : l'arriéré peut aller jusqu'à deux mois. Par conséquent, les dossiers auxquels ont accès les forces policières et autres intervenants ne sont pas à jour. En outre, les vérifications de casier judiciaire demandées par des employeurs ou des organismes bénévoles prennent trop de temps.

7.2 Il est essentiel que la haute direction de la GRC prenne des mesures propres à éliminer l'arriéré dont font état un grand nombre des services et à améliorer leur efficience. La GRC doit, en particulier, rationaliser le nombre de ses laboratoires en vue de rehausser leur niveau de service. Elle doit par ailleurs améliorer de façon marquée ses systèmes de mesure du rendement et de communication des résultats. Il est important que les usagers, la haute direction de la GRC et les membres du Parlement soient mis au courant de ces résultats.

7.3 Il faut repenser les dispositions prises en 1966 par le gouvernement fédéral et les provinces pour la prestation des services offerts aux responsables de l'application de la loi. Il est temps d'établir une entente parfaitement claire entre tous ces responsables — que ce soit au fédéral, au provincial ou au municipal — sur le niveau de service, les dispositions de financement, la contribution des usagers, la gestion et la reddition de comptes. Cette nouvelle entente exigera la collaboration de toutes les parties.

Contexte et autres observations

7.4 La GRC fournit une gamme de services essentiels aux responsables de l'application de la loi au Canada : la police, les tribunaux, les prisons et les commissions de libération conditionnelle. Ces services comprennent l'identification dactyloscopique, les casiers judiciaires, les laboratoires judiciaires, les renseignements criminels et l'accès en direct à des banques de données comme celles de l'immatriculation des véhicules, des permis de conduire, des personnes recherchées et des biens volés. En 1998–1999, la GRC a dépensé environ 122 millions de dollars pour la prestation de ces services.

7.5 Il existe un certain nombre de secteurs où il convient de louer la GRC pour la bonne gestion de ses services : elle a réussi à garder fonctionnel l'ancien système d'information du Centre d'information de la police canadienne pendant qu'elle attendait un nouveau système; elle a mis en application de nouvelles techniques judiciaires telles que l'analyse de l'ADN; elle est en train d'élaborer une banque de données d'empreintes génétiques; et elle a apporté des améliorations substantielles à ses systèmes d'identification dactyloscopique et de casiers judiciaires.

7.6 Notre dernière vérification des services offerts aux responsables de l'application de la loi date de 1990. Nous avons fait alors un certain nombre de recommandations visant à améliorer l'économie et l'efficience des opérations. Bon nombre de nos recommandations n'ont été prises en considération que tout récemment; d'autres

6.8 Selon les systèmes d'information de l'Agence, environ 11 000 sociétés et particuliers ont déclaré plus de 10 milliards de dollars en dépenses de RS&DE pour 1997, demandant ainsi des crédits d'impôt de quelque deux milliards de dollars. Les grandes sociétés ont déclaré 85 p. 100 de ces dépenses.

6.9 Un personnel comptant 144 conseillers scientifiques et 268 vérificateurs des comptes examine les demandes dans 37 bureaux des services fiscaux, partout au Canada. Les conseillers déterminent si les travaux sont admissibles dans le cadre du programme, tandis que les vérificateurs examinent les coûts qui sont déclarés afin de déterminer s'ils sont admissibles.

6.10 Un objectif clé du plan d'action de l'Agence pour 1998 était de réduire l'incertitude quant à l'admissibilité des projets scientifiques. Par conséquent, l'Agence et le secteur privé ont proposé une définition de ce qu'est un projet de RS&DE admissible qui, à notre avis, modifie l'étendue des dépenses et des travaux de RS&DE admissibles et pourrait se traduire par des coûts supplémentaires en crédits d'impôt. Toute modification importante apportée à la définition d'un projet admissible devrait être revue par le ministère des Finances qui doit répondre des coûts du programme, de ses objectifs en matière de politique et des dispositions législatives connexes.

Les réponses de l'Agence des douanes et du revenu du Canada et du ministère des Finances sont incluses dans le chapitre. Ces réponses décrivent les mesures qui ont été et qui seront prises pour donner suite à nos recommandations.

Agence des douanes et du revenu du Canada et ministère des Finances

Le traitement des demandes de crédit d'impôt pour la recherche scientifique et le développement expérimental

Chapitre 6 – Points saillants

6.1 En 1994, le gouvernement a restreint le délai pour présenter une demande de crédit d'impôt pour la recherche scientifique et le développement expérimental (RS&DE) aux 18 mois suivant l'année au cours de laquelle les contribuables ont engagé les dépenses. L'Agence des douanes et du revenu du Canada (l'Agence ou l'ADRC) a alors reçu 16 000 demandes supplémentaires, qui représentaient 2,8 milliards de dollars en crédits d'impôt pour les années d'imposition remontant jusqu'à 1985.

6.2 Notre vérification a révélé que le traitement de ces demandes a manqué de cohérence à plusieurs égards. Ces manques de cohérence ont compromis l'équité du processus d'examen. De plus, il y a eu de graves divergences d'opinions au sein de l'Agence quant à la façon dont il convenait de régler un différend avec un demandeur au sujet d'une demande importante. L'Agence n'a pas su montrer qu'elle avait des mécanismes efficaces pour résoudre de telles divergences d'opinions entre ses agents pour des cas particuliers.

6.3 Le manque de clarté quant aux projets admissibles s'est traduit par un certain nombre de demandes non résolues, remontant jusqu'à 1985. Les crédits d'impôt correspondants s'élèvent à des centaines de millions de dollars. Depuis la création du programme de RS&DE, il y a des désaccords entre demandeurs et administrateurs ainsi qu'entre administrateurs sur ce qui constitue une activité ou un projet admissible, sur le degré de rigueur avec lequel un agent scientifique doit examiner une demande et sur l'étendue de la documentation qui doit être présentée à l'appui des demandes. Il faut au plus tôt adopter des règles plus claires afin que le programme soit exécuté et administré avec efficacité et efficience.

6.4 L'Agence a reconnu la nécessité d'améliorer l'administration du programme. À cette fin, en novembre 1998, après avoir consulté les intéressés, le ministre du Revenu national a publié un plan d'action. L'Agence a créé une nouvelle direction chargée du programme et elle a nommé un nouveau chef pour cette direction.

6.5 Selon notre vérification, l'Agence devrait améliorer l'évaluation du risque que les demandes des contribuables ne soient pas admissibles afin que le personnel scientifique et les vérificateurs puissent concentrer leurs efforts sur celles qui comportent les risques les plus élevés. L'Agence gère le risque d'inadmissibilité en effectuant des contrôles de la complétude, des évaluations du risque, des vérifications et des examens scientifiques.

6.6 Il se peut qu'une évaluation effectuée par le ministère des Finances et par l'Agence ait surestimé les dépenses supplémentaires au titre de la RS&DE générées par le programme. Selon cette évaluation, le programme de la RS&DE aurait entraîné une augmentation nette du revenu réel du Canada de 20 millions de dollars à 55 millions de dollars par année.

Contexte et autres observations

6.7 Le gouvernement fédéral favorise la recherche-développement dans le secteur privé au moyen d'encouragements ou stimulants fiscaux. Les contribuables reçoivent des crédits d'impôt après avoir engagé des dépenses pour leurs projets.

5.7 Les douanes fonctionnent dans un environnement qui continue d'évoluer. Pour faire face à ce changement, elles ont préparé en 1990 et en 1998 des documents d'étude qui servent de schéma directeur pour préciser leur orientation future et les initiatives à prendre dans ce contexte. Les douanes ont franchi des étapes importantes pour atteindre les objectifs qu'elles s'étaient fixés en 1990. Elles viennent de diffuser un projet de plan d'action quinquennal pour la mise en oeuvre des initiatives exposées dans le document d'étude de 1998.

Les réponses de l'Agence des douanes et du revenu du Canada sont intégrées au présent chapitre. L'Agence est d'accord avec nos sept recommandations et ses réponses présentent un certain nombre de mesures visant à leur donner suite.

Agence des douanes et du revenu du Canada

Les voyageurs arrivant au Canada : la gestion des risques aux points d'entrée

Chapitre 5 – Points saillants

5.1 L'Agence des douanes et du revenu du Canada déploie beaucoup d'efforts pour moderniser ses opérations douanières et utiliser plus efficacement les technologies existantes. Cependant, nous avons constaté que plusieurs améliorations importantes s'imposaient.

5.2 Une stratégie claire et complète d'observation de la loi et des règlements est un élément essentiel de promotion de cette observation. Les douanes n'ont pas encore de stratégie globale d'observation décrivant clairement leurs plans pour encourager l'observation volontaire, ainsi que leur approche en vue d'une exécution responsable.

5.3 Nous avons constaté que l'évaluation des risques était incomplète : les douanes ne disposent pas de l'information importante nécessaire provenant de plusieurs ministères et organismes, pour évaluer pleinement les risques auxquels leurs inspecteurs sont confrontés. Il faut qu'elles déterminent les secteurs où les risques sont les plus élevés afin d'établir la meilleure façon de les contrôler. Nous avons recommandé que les douanes mettent plus d'empressement à obtenir une description précise des risques qu'elles doivent assumer, aux divers bureaux d'entrée, en raison des responsabilités qu'elles doivent y exercer au nom d'autres ministères — par exemple, au nom de Citoyenneté et Immigration Canada, de Santé Canada et de l'Agence canadienne d'inspection des aliments — et qu'elles utilisent les données ainsi obtenues pour faire une évaluation nationale des risques. Il leur faut également établir avec ces ministères un protocole d'entente à jour qui décrit les responsabilités et les rôles de chacun.

5.4 Nous avons également constaté que les inspecteurs des douanes à la frontière et dans les aéroports ont besoin d'être mieux équipés pour effectuer le travail complexe qui leur est confié. Ils doivent faire appliquer les lois et règlements sur les douanes et l'accise et prendre des décisions de tout ordre pour de nombreux autres ministères. Lors du traitement des voyageurs, les inspecteurs des douanes doivent prendre très rapidement des décisions. Les douanes possèdent de l'information, des systèmes et des programmes de formation pour aider leurs agents, mais l'information n'est pas communiquée uniformément, les systèmes doivent être améliorés et la formation est inégale.

Contexte et autres observations

5.5 En 1998–1999, le programme des douanes de l'Agence des douanes et du revenu du Canada a permis de traiter plus de 104 millions de voyageurs arrivant au Canada aux points ou bureaux d'entrée. Environ la moitié d'entre eux étaient des résidants du Canada qui revenaient au pays. La plupart des voyageurs entrent au Canada par transport routier en provenance des États-Unis (79 p. 100) ou par transport aérien (17 p. 100). Depuis 1991–1992, le nombre de voyageurs arrivant par la route a diminué, tandis que le nombre de voyageurs aériens a crû de près de 48 p. 100, en partie en raison de l'Accord Canada–États-Unis sur l'ouverture des espaces aériens.

5.6 Au fil des ans, le rôle des douanes a évolué. Autrefois, elles s'occupaient surtout de percevoir des recettes; désormais elles ont pour rôle de faciliter l'entrée des voyageurs et des marchandises, de protéger la société canadienne et de promouvoir la compétitivité des entreprises canadiennes.

Affaires indiennes et du Nord Canada

L'enseignement primaire et secondaire

Chapitre 4 – Points saillants

4.1 Affaires indiennes et du Nord Canada ne peut démontrer qu'il atteint l'objectif qu'il s'est fixé, à savoir aider les élèves membres d'une Première nation qui vivent dans une réserve à répondre à leurs besoins et à leurs aspirations en matière d'éducation. Par exemple, le Ministère n'a pas l'assurance dont il a besoin que les élèves membres d'une Première nation reçoivent une éducation convenable sur le plan culturel. De plus, les progrès accomplis pour combler l'écart en matière de scolarisation qui touche les élèves indiens vivant dans les réserves ont été lents à un point inacceptable. Au rythme où les progrès sont réalisés actuellement, il faudra plus de 20 ans pour que leur niveau de scolarisation atteigne celui des autres Canadiens.

4.2 Pour obtenir cette assurance et bien s'acquitter de ses responsabilités, le Ministère doit régler plusieurs questions importantes, notamment définir son rôle en matière d'éducation, élaborer et utiliser des mesures de rendement adéquates, et améliorer son rendement opérationnel. Tout en s'attaquant à ces questions, le Ministère devra davantage tenir compte des besoins culturels et particuliers des élèves indiens, de même que des facteurs socio-économiques qui peuvent influer sur la réussite scolaire.

4.3 Cette situation est complexe et nécessite une solution rapide. L'urgence augmentera à mesure que les exigences s'accentueront en matière d'éducation par suite de l'accroissement de la population dans les réserves, des changements technologiques et de la modification des programmes provinciaux d'enseignement, sur lesquels se fie le Ministère. Même si celui-ci a cerné ou amorcé plusieurs projets de réforme de l'éducation, il lui reste toujours à prendre les mesures importantes qui permettront de régler ces questions.

Contexte et autres observations

4.4 Le Ministère est habilité à jouer un rôle actif dans la prestation de l'enseignement primaire et secondaire des enfants indiens vivant dans les réserves. Même s'il a choisi de se fier aux Premières nations et aux provinces pour la conception et la prestation d'une éducation appropriée, il reconnaît que cette approche ne diminue pas sa responsabilité et son obligation de rendre des comptes.

4.5 Pendant plus d'un siècle, des lois, des traités avec les Indiens et des politiques gouvernementales ont façonné le mandat et les responsabilités des Affaires indiennes et du Nord Canada en matière d'éducation.

4.6 En ce moment, quelque 117 000 élèves inscrits aux écoles primaires et secondaires vivent dans une réserve. Les coûts budgétés actuels, sans compter les coûts de construction et d'entretien des écoles, s'élèvent à environ un milliard de dollars par année.

Affaires indiennes et du Nord Canada reconnaît l'importance des questions soulevées dans le présent chapitre. Il est d'avis que l'initiative Rassembler nos forces : Le Plan d'action du Canada pour les questions autochtones, ainsi que d'autres projets prévus en éducation auxquels il participe avec les Premières nations et les gouvernements provinciaux, aideront à combler l'écart en matière de scolarisation dont fait état ce chapitre.

mais de prendre des décisions qui pourraient comporter des risques trop élevés et entraîner des coûts importants pour la société canadienne.

3.8 De façon générale, il y a lieu de s'interroger sérieusement, à savoir si le Ministère a les ressources et la capacité opérationnelle requises pour accomplir les tâches nécessaires à l'atteinte des niveaux annuels d'immigration établis par le gouvernement.

Contexte et autres observations

3.9 Citoyenneté et Immigration Canada est responsable, entre autres, d'établir la politique sur l'immigration, de sélectionner les immigrants et d'évaluer les demandes des visiteurs à l'étranger. Il protège également la santé et la sécurité des Canadiens en interceptant et en renvoyant dans leur pays d'origine les personnes qui n'ont pas le droit d'entrer ou de demeurer au Canada.

3.10 En 1999, environ 190 000 immigrants ont été admis au Canada. Le Programme d'immigration est composé de quatre grands volets : la famille, le volet économique, les réfugiés et les autres. Notre vérification a porté sur le volet économique qui compte pour 56 p.100 des immigrants admis chaque année. Ce volet vise à recruter des travailleurs qualifiés et des gens d'affaires.

3.11 La prestation des services d'immigration à l'étranger se fait par le biais d'un réseau complexe de 81 bureaux situés dans les ambassades, les hauts-commissariats et les consulats canadiens. Un personnel composé d'environ 210 agents canadiens et de 980 employés locaux y travaille et y traite, chaque année, un grand nombre de visas d'immigrant, de visas de visiteur et d'autorisations d'études et d'emploi temporaire. Plusieurs autres ministères et organismes fédéraux contribuent à l'atteinte des objectifs du Programme d'immigration, y compris le ministère des Affaires étrangères et du Commerce international, le Service canadien du renseignement de sécurité, la Gendarmerie royale du Canada et Santé Canada.

3.12 Il est décevant de constater la similitude entre plusieurs des lacunes relevées dans le présent chapitre et celles dont nous avions fait état en 1990. Au cours des années, le gouvernement et le Ministère ont entrepris plusieurs initiatives pour corriger la situation, mais sans grands résultats.

3.13 Cette situation requiert une attention immédiate à la fois du Ministère et du gouvernement. D'une part, le Ministère doit améliorer l'efficience du traitement des demandes d'immigration. Les bureaux à l'étranger croulent sous la paperasserie et la désuétude de leur technologie constitue un obstacle sérieux à l'amélioration du rendement. Le Ministère a besoin d'une bien meilleure information sur les ressources requises pour lui permettre d'assumer ses responsabilités en matière de traitement des demandes d'immigration. D'autre part, un investissement important de ressources peut être nécessaire pour combler les lacunes que nous avons observées et permettre au Ministère de réaliser les gains d'efficience possibles que nous avons relevés. Il est particulièrement essentiel que, lors de l'établissement des niveaux d'immigration annuels, le gouvernement s'assure de maintenir un équilibre approprié entre les ressources allouées au Ministère et à ses partenaires fédéraux et la charge de travail que représente l'exécution des tâches requises pour les atteindre.

3.14 La révision de la *Loi sur l'immigration* que le Ministère entreprend présentement offre une excellente occasion de combler certaines des lacunes. Toutefois, le défi pour le gouvernement et le Ministère est énorme et complexe. Étant donné que le Parlement a manifesté un intérêt particulier à l'égard du Programme, en exigeant la présentation d'un plan annuel d'immigration, nous encourageons les parlementaires à surveiller de près la situation.

Le chapitre présente les réponses de Citoyenneté et Immigration Canada, de Santé Canada, de la Gendarmerie royale du Canada, du Service canadien du renseignement de sécurité et du ministère des Affaires étrangères et du Commerce international. Ils acceptent nos recommandations et notent que des initiatives sont actuellement en cours dans plusieurs secteurs.

Citoyenneté et Immigration Canada

Le volet économique du programme canadien d'immigration

Chapitre 3 – Points saillants

3.1 Nous avons remarqué de graves lacunes dans la gestion et l'exécution du volet économique du Programme canadien d'immigration qui vise à recruter des personnes hautement qualifiées qui peuvent rapidement contribuer à notre économie et s'adapter à notre société. Ces lacunes limitent de façon importante la capacité du Canada à maximiser les avantages économiques et sociaux que procure l'immigration et à protéger l'intégrité de son programme d'immigration.

3.2 Nous avons constaté que les bureaux d'immigration à l'étranger ne suffisent pas à la tâche. Ils éprouvent beaucoup de difficultés à assumer la charge de travail et les responsabilités qui leur sont assignées. Les niveaux d'immigration que le gouvernement a établis ne sont pas respectés et les requérants attendent de plus en plus longtemps avant que leur demande ne soit finalisée, parfois plus de trois ans.

3.3 Nous avons noté des lacunes qui exposent Citoyenneté et Immigration Canada à des critiques quant à la qualité et à l'uniformité des décisions prises dans le cadre des activités de sélection des immigrants. Les agents des visas ont besoin de meilleurs critères de sélection, d'une meilleure formation et de meilleurs outils pour évaluer plus efficacement les demandes d'immigration. En outre, la qualité de leurs décisions ne fait pas l'objet d'une surveillance suffisante de la part du Ministère. Nous avons relevé des écarts importants dans les taux d'acceptation entre les agents ayant des cas similaires à traiter.

3.4 Notre vérification a permis de cerner des faiblesses importantes dans la gestion des évaluations médicales des immigrants éventuels. Depuis notre dernière vérification en 1990, le Ministère et Santé Canada ont été incapables de prendre position sur la question suivante, à savoir s'il est nécessaire de modifier les normes en matière d'examens médicaux, lesquelles servent à déterminer si un requérant représente un danger pour la santé et la sécurité publiques ou pourrait engendrer un fardeau excessif pour le système de soins de santé ou les services sociaux. On exige les mêmes examens de routine depuis 40 ans et les ministères n'ont pas décidé si les requérants devaient subir systématiquement des tests pour des maladies infectieuses autres que la syphilis et la tuberculose. Nous sommes aussi très préoccupés par le manque de rigueur et d'uniformité de la gestion globale des activités d'évaluation médicale, y compris les pratiques entourant la supervision des médecins locaux désignés qui effectuent à l'étranger les examens médicaux des immigrants éventuels.

3.5 Il y a de sérieuses entraves à la détermination de l'admissibilité des immigrants éventuels sur le plan de la criminalité et de la sécurité. Les agents des visas disposent de peu d'information et de soutien pour s'assurer que les demandeurs ne sont pas des personnes susceptibles de s'engager dans des activités criminelles ou de menacer la sécurité des Canadiens. Certaines personnes sont ainsi admises au Canada sans que l'on ait l'assurance raisonnable qu'elles n'ont pas commis d'actes criminels à l'étranger, ne se sont pas livrées à l'espionnage, à la subversion ou au terrorisme, ou n'ont pas de liens avec le crime organisé.

3.6 Le Ministère est très vulnérable à la fraude et à l'abus. Il n'a aucune mesure efficace en place pour décourager les personnes de soumettre des demandes frauduleuses, et les méthodes de détection qu'utilisent les agents des visas sont coûteuses. De plus, nous avons constaté que les contrôles des recettes, des formulaires de visas et des systèmes informatiques sont insuffisants.

3.7 Les employés responsables du traitement des demandes d'immigration dans les bureaux à l'étranger sont très inquiets de la situation actuelle. Ils ont non seulement le sentiment d'agir à l'encontre de leurs propres valeurs

téléphoniques et dix centres de traitement du courrier. Près de 80 p. 100 des quelque 21 000 employés de DRHC travaillent au niveau local.

2.8 Afin d'assurer l'amélioration continue de la qualité du service, les gestionnaires doivent obtenir une plus grande rétroaction des clients au niveau local, par exemple en enquêtant sur la satisfaction des clients et en analysant les plaintes qu'ils formulent. Il n'y a aucune politique de traitement des plaintes relatives au Programme d'assurance-emploi et aux Programmes de la sécurité du revenu. Précisons toutefois que les responsables des Programmes de la sécurité du revenu ont commencé à élaborer une telle politique.

2.9 Le Ministère ne dispose pas de l'information sur les coûts dont il a besoin pour gérer le compromis à faire entre le coût de ses principaux services et leur qualité. Nous croyons qu'il doit s'efforcer d'élaborer et de mettre en oeuvre, au niveau local, des plans d'action axés sur l'amélioration continue de la qualité du service.

Les réponses du Ministère à nos recommandations sont présentées dans le chapitre. En général, le Ministère est d'accord avec les recommandations et il indique les mesures qu'il prend ou qu'il prévoit prendre pour les mettre en oeuvre.

Développement des ressources humaines Canada

La qualité du service au niveau local

Chapitre 2 – Points saillants

2.1 Développement des ressources humaines Canada (DRHC) a fait des progrès considérables au chapitre de la qualité du service. Au cours des dernières années, le Ministère a pris différentes initiatives nationales, notamment en élaborant une politique qui précise son approche d'un service de grande qualité; en mettant en oeuvre un nouveau réseau de prestation de services pour rendre ceux-ci plus accessibles aux Canadiens; et en établissant quels engagements nationaux il prenait. Au niveau local, mentionnons des initiatives visant à améliorer les compétences des employés en matière de service et l'utilisation de nouvelles technologies.

2.2 Bien que DRHC ait pris des engagements nationaux, ils ne sont pas communiqués uniformément aux clients dans les points de service. De plus, les bureaux locaux ne divulguent pas aux clients, de façon uniforme, la mesure du rendement en regard des objectifs de la prestation de services, le coût des services et la façon de déposer une plainte sur le service reçu et d'obtenir réparation.

2.3 Le Ministère n'a pas de mesures du rendement pour évaluer tous les engagements nationaux qu'il a pris. Les mesures du rendement des services sont centrées sur le temps d'attente pour les services au comptoir ainsi que sur la rapidité du traitement des demandes et des paiements. Toutefois, nous avons noté des faiblesses concernant la mesure de ces deux indicateurs.

2.4 En dépit des améliorations qui ont été apportées à la rapidité du paiement des prestations d'assurance-emploi au cours des trois dernières années, on estime qu'au cours de cette période les paiements erronés sont passés de quatre à six dollars pour chaque 100 $ payés. Selon l'information disponible, on remarque une augmentation aussi bien des moins-payés que des trop-payés; cette augmentation est due notamment à une diminution de la qualité de l'information soumise par les employeurs. Nous avons constaté que les gestionnaires des bureaux locaux mettent surtout l'accent sur la rapidité des paiements. On ne trouve ni objectifs de rendement ni mesures de l'exactitude pour le traitement des demandes au niveau local.

2.5 Les services d'aide à l'emploi sont de plus en plus offerts par des organisations non gouvernementales en vertu d'accords de contribution conclus avec DRHC. Les accords que nous avons examinés ne décrivent pas les attentes ou les objectifs pour ce qui est du rendement des services. Ils n'exigent pas non plus que les organisations non gouvernementales rendent compte de la qualité des services offerts.

2.6 L'information que le Ministère fournit au Parlement au sujet de sa performance en regard des engagements nationaux qu'il a pris présente des lacunes. De plus, nous avons constaté des lacunes dans l'information qui pourrait mettre en perspective le rendement des services qui est communiqué. Il n'est pas possible, par exemple, d'évaluer la rapidité du paiement des prestations d'assurance-emploi en fonction de l'information sur l'exactitude des paiements.

Contexte et autres observations

2.7 Près d'un Canadien sur trois est un client de DRHC. Chaque année, le Ministère traite entre 60 millions et 80 millions de demandes relatives aux programmes, envoie environ 100 millions de lettres et verse plus de 50 milliards de dollars en prestations diverses. La plupart des programmes et des services sont offerts au niveau local par l'un des plus importants réseaux de prestation de services du gouvernement fédéral. Ce réseau comprend 320 centres de ressources humaines du Canada, 5 000 kiosques libre-service, 21 centres de services

1.8 Les gestionnaires des services ont donné suite à nos recommandations de 1996 et cherché des moyens pour obtenir une amélioration continue, mais aucune des recommandations n'a été pleinement mise en oeuvre. Toutefois, nous avons constaté que les gestionnaires et le personnel de la fonction publique mettent beaucoup plus l'accent sur le service et l'innovation.

1.9 C'est avec découragement que nous avons constaté la lenteur des progrès accomplis par le projet d'amélioration des inscriptions du gouvernement (les « pages bleues »). Le groupe de travail sur le service au public de Fonction publique 2000 a établi, en 1990, qu'un remodelage de ces pages était nécessaire.

1.10 Au cours des trois dernières années, les ministères et organismes ont fourni au Parlement plus d'information sur la qualité du service, et l'information communiquée sera probablement plus utile. L'information sur les tendances du rendement et sur les coûts des services doit cependant être améliorée.

1.11 Depuis 1998, le Secrétariat du Conseil du Trésor a donné aux ministères et aux organismes une orientation et un appui plus soutenus pour améliorer la prestation des services. Toutefois, il n'a pas surveillé systématiquement les progrès dans l'ensemble du gouvernement, et l'information qu'il a communiquée au Parlement n'a pas permis de bien comprendre les progrès accomplis en vue d'améliorer la qualité du service fourni aux Canadiens.

La réponse que fait le Secrétariat du Conseil du Trésor au nom du gouvernement est présentée à la fin du chapitre. Le Secrétariat précise que la nouvelle présentation des pages bleues sera intégrée dans les annuaires téléphoniques selon les calendriers de publication établis. Il marque son accord avec nos recommandations portant sur les systèmes de mesure, la satisfaction du client et la communication de l'information. Il indique qu'il collabore avec les ministères en vue d'élaborer une stratégie pour promouvoir l'amélioration continue de la prestation des services dans l'ensemble de l'administration fédérale.

Chapitre 1 – Points saillants

1.1 Notre vérification avait pour objet de déterminer si le gouvernement fédéral a fourni un service de meilleure qualité aux Canadiens après dix ans d'engagements et d'initiatives de toutes sortes pour l'améliorer. En 1996, nous avons fait une évaluation à mi-parcours des progrès du gouvernement. Dans la présente vérification, nous avons passé en revue les 13 mêmes gammes de services fournis par dix ministères et organismes gouvernementaux.

1.2 L'amélioration la plus marquée depuis 1996 est la plus grande accessibilité des services téléphoniques. Lorsqu'on répond à leurs appels, les Canadiens obtiennent maintenant plus rapidement une réponse à leurs demandes de renseignements. Cependant, malgré cette amélioration, nous nous inquiétons de la proportion élevée d'appels qui restent sans réponse lorsque les lignes sont occupées ou que les personnes qui attendent pour parler à un agent abandonnent l'appel. À l'Agence des douanes et du revenu du Canada (Impôt), le pourcentage d'appels restés sans réponse demeure élevé à 54 p. 100, bien qu'il constitue une amélioration par rapport à 1996 où il était de 73 p. 100.

1.3 Pour la plupart des services fournis autrement que par téléphone, comme le service au comptoir, l'information sur le rendement était insuffisante et nous ne pouvions pas établir si le service s'était amélioré. Le Bureau des passeports a mesuré certains de ses principaux résultats et a grandement amélioré son rendement. De nombreux ministères et organismes ont pris des initiatives depuis 1996 pour améliorer le service, mais ils n'ont pas suffisamment mesuré les résultats.

1.4 Les ministères et organismes doivent davantage consulter leurs clients pour définir les aspects du service qui sont les plus importants pour eux, de même que la qualité du service attendue. Cette information aiderait les fournisseurs de service à établir des objectifs et des indicateurs appropriés pour mesurer le rendement.

1.5 Depuis 1996, la communication avec les clients s'est améliorée aux points de service. Les Canadiens qui se rendent à ces bureaux sont mieux informés sur le niveau de service auquel ils sont en droit de s'attendre. Toutefois, on doit mieux les informer au sujet du coût des services, de l'atteinte des objectifs et de la manière de déposer et de régler une plainte.

Contexte et autres observations

1.6 La demande de services au gouvernement fédéral par les Canadiens — qu'il s'agisse par exemple de renseignements sur la citoyenneté et l'immigration, la Sécurité de la vieillesse et les passeports ou d'information météorologique ou statistique — s'est accrue considérablement depuis 1996. Les volumes de service sont plus élevés dans dix des 13 gammes de services que nous avons vérifiées. En même temps, l'environnement de la prestation des services se transforme continuellement grâce aux progrès rapides des technologies de l'information et à l'utilisation croissante des nouveaux modes de prestation des services.

1.7 Les services téléphoniques sont de plus en plus utilisés alors que l'on constate une baisse de l'utilisation des services au comptoir. Dans les services téléphoniques gouvernementaux que nous avons vérifiés, le volume de demandes de renseignements téléphoniques était monté en flèche, passant de 36 millions en 1996 à 56 millions en 1999, soit une hausse de 54 p. 100. Le nombre de demandes écrites de renseignements (courrier, télécopieur et courriel), bien qu'il reste important pour certaines gammes de services, affiche, en général, un recul marqué.

Rapport du vérificateur général du Canada à la Chambre des communes — Avril 2000

Avant-propos

Je suis heureux de présenter le volume d'avril de mon rapport de l'an 2000. Cet avant-propos est suivi des Points saillants des neuf chapitres, qui sont publiés séparément :

1. La qualité du service
2. Développement des ressources humaines Canada – La qualité du service au niveau local
3. Citoyenneté et Immigration Canada – Le volet économique du programme canadien d'immigration
4. Affaires indiennes et du Nord Canada – L'enseignement primaire et secondaire
5. Agence des douanes et du revenu du Canada – Les voyageurs arrivant au Canada : la gestion des risques aux points d'entrée
6. Agence des douanes et du revenu du Canada et ministère des Finances – Le traitement des demandes de crédit d'impôt pour la recherche scientifique et le développement expérimental
7. Gendarmerie royale du Canada – Les services offerts aux responsables de l'application de la loi
8. Ministère des Finances – La gestion de la dette du Canada : les nouveaux défis à relever
9. La rationalisation du régime de gestion des ressources humaines : une étude de l'évolution des rôles et des responsabilités

Il n'est pas étonnant qu'un élément commun des chapitres de mon premier rapport de l'an 2000 soit le défi que doit relever chacun des ministères et des organismes que nous avons examinés : suivre l'évolution rapide de l'environnement dans lequel ils exercent leurs activités.

Pour pouvoir s'adapter facilement au changement, les ministères et les organismes doivent notamment savoir si leurs activités donnent encore des résultats satisfaisants. Cela signifie qu'ils doivent avoir une idée précise de ce qu'ils tentent d'accomplir et, lorsqu'ils travaillent en collaboration avec d'autres parties, de ce que chacun est censé faire.

Les ministères et les organismes doivent aussi connaître les risques que présente leur environnement. Ils doivent affecter leurs ressources de manière appropriée, là où les risques sont le plus élevés. Ils doivent en outre former leur personnel et lui fournir les outils nécessaires pour gérer ces risques.

Enfin, les ministères et les organismes doivent continuellement mesurer leur rendement. S'ils constatent qu'ils n'obtiennent pas les résultats voulus, ils doivent s'empresser d'apporter les correctifs nécessaires.

Les chapitres de ce rapport font état de résultats mitigés. Quelques–unes des organisations que nous avons examinées appliquent certaines des mesures précédentes, mais aucune ne les applique toutes. Nous trouvons très troublant que certains des problèmes les plus graves soient les mêmes que ceux qui ont déjà été signalés, il y a dix ans ou plus, par le Bureau et d'autres. Ces problèmes nécessitent une action immédiate. Les ministères et les organismes peuvent aider à éviter d'autres problèmes s'ils appliquent les mesures décrites ci–dessus.

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Avril 2000

Avant-propos et Points saillants

AUDITOR GENERAL OF CANADA

VÉRIFICATEUR GÉNÉRAL DU CANADA

L'honorable Gilbert Parent, député
Président de la Chambre des communes

J'ai l'honneur de vous transmettre ci–joint mon premier rapport de l'an 2000 à la Chambre des communes, lequel doit être déposé à la Chambre en conformité avec les dispositions du paragraphe 7(5) de la *Loi sur le vérificateur général.*

Le vérificateur général du Canada,

L. Denis Desautels, FCA

OTTAWA, le 11 avril 2000

Le Rapport d'avril 2000 comporte 9 chapitres ainsi que l'Avant–propos et les Points saillants. Pour mieux répondre aux besoins de nos clients, il est disponible sur divers supports. Pour obtenir d'autres documents ou les obtenir sur un autre support, voir la Table des matières et le bon de commande à la fin du présent document.

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Rapport du vérificateur général du Canada à la Chambre des communes

Avant-propos et Points saillants

Avril 2000



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vérificateur général du Canada

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Chapter 1

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Government Publications

Report of the Auditor General of Canada to the House of Commons

Chapter 1
Service Quality

April 2000

Report of the

Auditor General of Canada

to the House of Commons

Chapter 1

Service Quality

April 2000

This April 2000 Report comprises 9 chapters as well as a Foreword and Main Points. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

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Chapter 1

Service Quality

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.

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Service Quality

Main Points

1.1 The purpose of our audit was to see whether the federal government is providing better quality of service to Canadians, after a decade of commitments and a series of initiatives to improve it. In 1996, we provided a midcourse assessment of the government's progress. In the current audit, we revisited the same 13 services delivered by 10 government departments and agencies.

1.2 The most significant improvement since 1996 has been to make telephone services more accessible. Canadians are now able to obtain faster responses to their enquiries once their calls are answered. Despite that improvement, however, we are concerned by the high percentage of calls not answered when lines are busy and calls abandoned while the caller waits on hold to speak to an agent. At the Canada Customs and Revenue Agency (Taxation) the percentage of unanswered calls remains high at 54 percent, although it has improved since 1996, when it was 73 percent.

1.3 For most services delivered by means other than telephone, such as counter service, there was not enough performance information for us to determine whether service has improved. The Passport Office has measured some of its key results and demonstrated significant improvement in its performance. Many departments and agencies have taken initiatives since 1996 to improve service but have not sufficiently measured the results.

1.4 Departments and agencies need to consult more with their clients to identify the aspects of service that matter most to them, as well as the quality of service they expect. This information would help the service providers establish appropriate targets and indicators of performance to measure.

1.5 Communication to clients at points of service has improved since 1996. Canadians visiting these offices are better informed about the level of service they can expect. However, more attention is needed to informing them on what it costs to provide the services, whether targets have been met and how they can lodge and resolve complaints.

Background and other observations

1.6 The demand by Canadians for services of the federal government — such as enquiries about citizenship and immigration, Old Age Security, passports, weather or statistical information — has increased significantly since 1996. Volumes of service are higher in 10 of 13 service lines we audited. At the same time, the environment for delivering services continues to evolve with rapid advances in information technology and growing use of alternative methods of service delivery.

1.7 Telephone services have become increasingly prominent, while the use of counter services has declined. In the government telephone services we audited, the volume of telephone enquires climbed from 36 million in 1996 to 56 million in 1999, an increase of 54 percent. The numbers of written enquiries (mail, fax and e-mail), while still important in some services lines, are generally much lower.

1.8 Although service managers have acted on our 1996 recommendations and sought ways to make continuous improvements, none of the recommendations has been implemented fully. However, we noted a shift among public service managers and staff toward a stronger focus on service and innovation.

1.9 We were discouraged to find slow progress on the project to improve the government's telephone directory listings (the Blue Pages). The need to redesign them was identified in 1990 by the Public Service 2000 Task Force on Service to the Public.

1.10 Over the past three years, departments and agencies have provided Parliament with more information on service quality, and the information they report is more likely to be meaningful. But better information is needed on performance trends and on costs.

1.11 Since 1998, the Treasury Board Secretariat has given departments and agencies more guidance and support to improve service delivery. However, it has not systematically monitored progress across the government, and the information it has reported to Parliament has not been adequate to provide a clear understanding of progress in improving the quality of service to Canadians.

The response of the Treasury Board Secretariat on behalf of the government is included at the end of the chapter. The Secretariat indicates that the new Blue Pages telephone directory format will be implemented according to established publication schedules. The Secretariat agrees with our recommendations on measurement, client satisfaction and reporting. It indicates that it is working with departments to develop an approach designed to promote continuous improvement in service delivery across the government.

Introduction

Service quality is important to all Canadians

1.12 All Canadians require the services of the federal government at one time or another. These could be services they use regularly in their everyday lives, such as getting weather information, or services they need occasionally. For example, Canadians may have to obtain a passport when travelling to another country. Once abroad, they may need consular services. When returning, they must go through customs and may have to pay taxes and duties on goods they bring back to Canada (see Chapter 5, Canada Customs and Revenue Agency — Travellers to Canada: Managing the Risks at Ports of Entry).

All Canadians require the services of the federal government at one time or another.

1.13 At certain times in their lives, some Canadians may require services related to Canada Pension Plan benefits and Employment Insurance benefits (see Chapter 2, Human Resources Development Canada — Service Quality at the Local Level). Similarly, Canadians who wish to start a business may look to the federal government for economic and market information.

1.14 Given the pervasiveness of government services and their importance to Canadians, their quality is a matter of wide concern. As clients of specific services, Canadians have the right to expect high quality. At the same time, the government has the obligation to provide high quality at an affordable cost. To reach an appropriate balance between cost and quality, it has to weigh the interests of individual clients against the broader interests of all citizens and taxpayers.

Canadians have the right to expect high-quality service. At the same time, the government has the obligation to provide high quality at an affordable cost.

The government has expressed its commitment to service quality since 1990

1.15 In its 1990 white paper, "Public Service 2000, The Renewal of the Public Service of Canada", the government explicitly committed itself to delivering high-quality services to Canadians. The President of the Treasury Board was assigned overall responsibility for this commitment. Starting in 1992, the government required departments and agencies to put in place some key elements to improve service quality. These included targets for delivery, measures of performance toward those targets, cost information and complaint and redress mechanisms. Departments and agencies were to communicate these elements to clients at points of service, along with descriptions of the services and pledges of the quality of service that clients could expect.

1.16 In June 1995, the government launched the Quality Services Initiative. It outlined specific actions to be phased in across the government over three years. While the key elements established in 1992 were an integral part of the Quality Services Initiative, the new approach stressed the importance of client satisfaction, employee involvement, innovation and the celebration of success.

1.17 The government's initiatives to improve service quality have evolved since 1996, when we last reported on their progress. The government remains publicly committed to strengthening the quality of service delivery. It has reaffirmed its commitment on a number of occasions and in a variety of ways (see Exhibit 1.1).

1.18 In April 1998, the government responded to the Fifth Report of the Standing Committee on Public Accounts, which dealt with our 1996 audit of service quality. The government's response clearly emphasized a commitment to service quality, and outlined a framework for organizing services from a citizen's standpoint.

1.19 Other jurisdictions in Canada and abroad are also moving to make government services more client-focussed and to improve their quality. For example,

the Province of Ontario is implementing its "Customer-Centred Government", a strategy that aims to deliver service of high quality from the customer's perspective and to increase public satisfaction. The Province of New Brunswick has established a corporation, Service New Brunswick, with a mission to improve the delivery of government services to the public. One improvement is electronic service delivery through a network of commercial service centres.

1.20 The Organization for Economic Co-operation and Development (OECD) recently reported that making service more responsive to citizens is a key objective of public management reform in all member countries. The United States government is implementing the National Partnership for Reinventing Government. A focal point of that reform effort is to put customers first in service delivery. The United Kingdom's "Service First" initiative, built on its Citizen's Charter, established new principles of public service delivery. It focusses on responsiveness, quality, effectiveness and working together with other service providers.

Time to revisit service quality

1.21 In 1990, the Public Service 2000 initiative envisioned that public servants

Exhibit 1.1

Government Commitments to Service Quality Since 1996

Date	Commitment
February 1997	***Clerk of the Privy Council, Fourth Annual Report to the Prime Minister on the Public Service of Canada*** "Commitment to quality service is a fundamental responsibility of the public sector." "We must relentlessly pursue the elimination of self-inflicted impediments to improved service delivery." "We need to take a 'whole-of-government' approach in service delivery which looks outward to the public interest."
September 1997	***Speech from the Throne to Open the First Session, Thirty-Sixth Parliament of Canada*** "The Government will continue to renew the Public Service of Canada to ensure its members have the skills and dedication to continue serving Canadians well."
March 1998	***Clerk of the Privy Council, Fifth Annual Report to the Prime Minister on the Public Service of Canada*** "We will continue our efforts to focus service delivery around citizens' needs and on improving citizens' access to government."
April 1998	***Response to the Fifth Report of the Standing Committee on Public Accounts, on Service Quality*** "The Government is committed to strengthening the quality of service delivery and enhancing the use of service standards for all government programs." "The Government has established within the Treasury Board Secretariat a new Sector with the mandate to focus on government-wide approaches to improving service to Canadians." "Measurement and reporting are central to understanding the present state, and to tracking progress towards service improvement...it is important to monitor progress regularly." "As part of the Treasury Board's increased emphasis on improving service delivery...the new Service Sector will be studying appropriate ways of monitoring departmental performance and reporting on progress." "The Government is committed to citizen-centred service delivery [which is] a broader concept, comprised not only of service standards, but also leadership, planning, good management, and measurement and reporting of performance, and the implementation of new integrated approaches to service delivery, such as single windows and partnerships."

by the year 2000 would be operating in a much more flexible and service-oriented environment. Our 1996 audit assessed the government's progress at midcourse toward establishing such an environment. Our report made several recommendations to improve service, many of which the Standing Committee on Public Accounts also made in its Fifth Report (see Appendices A and B).

1.22 After a decade of government commitments to service quality, and a series of initiatives to improve it, we believe that now is a good time to look at the results.

After a decade of government commitments to service quality, and a series of initiatives to improve it, we believe that now is a good time to look at the results.

Focus of the audit

1.23 We audited the same 13 service lines covered in our 1996 audit, including the same 6 telephone operations (see Exhibit 1.2). These 13 service lines represent highly visible, frequently used services to the public. Our purpose was to see whether their quality has improved since 1996, and by how much. We looked

Exhibit 1.2

Service Lines and Telephone Operations We Examined

Department	Service Lines	Telephone Operations	Other Operations
Canada Customs and Revenue Agency (Customs)	Customs inspection at an airport or a border crossing		✓
Canada Customs and Revenue Agency (Taxation)	Answering enquiries about taxation matters at a counter or by telephone	✓	✓
Citizenship and Immigration Canada	Providing information about citizenship and immigration	✓	
Environment Canada	Providing weather information by telephone and other means		✓
Department of Foreign Affairs and International Trade	Issuing a Canadian passport		✓
Department of Foreign Affairs and International Trade	Providing consular services at a Canadian mission overseas		✓
Human Resources Development Canada (Employment Insurance)	Providing Employment Insurance benefits	✓	✓
Human Resources Development Canada (Income Security)	Providing Old Age Security or Canada Pension Plan benefits	✓	✓
Industry Canada	Providing information at a Canada Business Service Centre	✓	✓
Parks Canada Agency (formerly Canadian Heritage)	Providing services to visitors at Canadian national parks		✓
Public Works and Government Services Canada — Reference Canada	Answering the 1–800 number (in the Blue Pages) and telling how to contact specific government units	✓	
Royal Canadian Mounted Police	Providing police assistance in towns and villages served by the RCMP		✓
Statistics Canada	Providing statistical information at the local Reference Centres of Statistics Canada		✓

Fiscal restraint and downsizing of the public service in the 1990s forced the government to find smarter and more cost-effective ways to do business, including the way it delivers services to Canadians.

at whether the departments and agencies that deliver the services have measured their results and reported them to Parliament. We also examined what the Treasury Board Secretariat has done to help them improve service quality. Our audit covered the delivery of the services between 31 March 1996 and 31 October 1999.

1.24 As this audit focussed on results, we asked departments and agencies to provide us with their performance information. However, we did not audit its accuracy. We assessed the information using the criteria developed for our audit.

1.25 This chapter provides a general assessment of progress made in improving service quality government-wide. It is not intended to give a full account of quality in each service line we covered. Where appropriate, we used specific examples to illustrate general points.

1.26 Further details on our objectives, approach and criteria are presented at the end of this chapter in **About the Audit.**

Observations and Recommendations

The Environment for Service Delivery in the Federal Government

1.27 Fiscal restraint and downsizing of the public service in the 1990s forced the government to find smarter and more cost-effective ways to do business, including the way it delivers services to Canadians. A number of factors have provided both opportunities and challenges for the government in meeting its service quality commitments.

The Internet has become a major tool for providing information.

1.28 Advances in information technology. Information technology has grown exponentially. The Internet has become a major tool for providing information, and Canadians can now turn to the Web sites of all departments and agencies. An example is the spectacular growth in the use of the Internet for specific information on national parks, national historic sites and canal and national marine conservation areas — from a negligible volume in 1995–96 to around 25 million "hits" in 1998–99.

1.29 When Canadians were asked recently how they wanted to obtain government services, many favoured electronic service delivery. A quarter of the respondents were comfortable with kiosks and almost 20 percent preferred Internet-based services. In the 1999 Speech from the Throne, the government said it would become "a model user of information technology and the Internet." Its "Connecting Canadians" initiative has a goal of making all government information and services available to Canadians on-line by 2004.

The telephone has become a preferred mode of service for many clients and the public.

1.30 Call centres have become widespread. The telephone has become a preferred mode of service for many clients and the public. Several departments and agencies are using call centres as a more cost-effective method of service delivery. Examples are Canada Customs and Revenue Agency, Citizenship and Immigration Canada and Human Resources Development Canada. The private sector's use of call centres has also grown. For example, the Amex Canada Inc. call centre has grown in the past three years from fewer than 200 agents to nearly 800. This call centre provides telephone services to clients in Canada and the United States and, through its outsourcing division, to clients of other businesses.

1.31 Alternative and integrated service delivery. The federal government has established a number of new ways to deliver public services. These include service agencies, like the Canadian Food Inspection Agency (created in April 1997), Parks Canada Agency (December 1998, formerly in the Department of Canadian Heritage) and the Canada Customs and Revenue Agency

(November 1999, formerly Revenue Canada). The government has also set up collaborative and partnering arrangements among departments, and with other governments, the private sector and not-for-profit organizations. It is using them increasingly to provide more cost-effective services. An example is Industry Canada's network of Canada Business Service Centres, which involves joint ventures with other federal departments, provincial ministries, municipal governments and private sector organizations.

1.32 Calls for "single window" service delivery have required that departments and agencies look for ways to manage their services jointly and sometimes to deliver services with other levels of government. For example, in partnership with the Ontario Ministry of Community and Social Services and the Regional Municipality of Hamilton–Wentworth, Human Resources Development Canada has established a single window where the public can go for services related to income support, employment preparation and job searching. As we completed our audit, there were also a number of pilot projects under way through Service Canada, a government-wide initiative to provide Canadians with one-stop access to a range of services (see Exhibit 1.3).

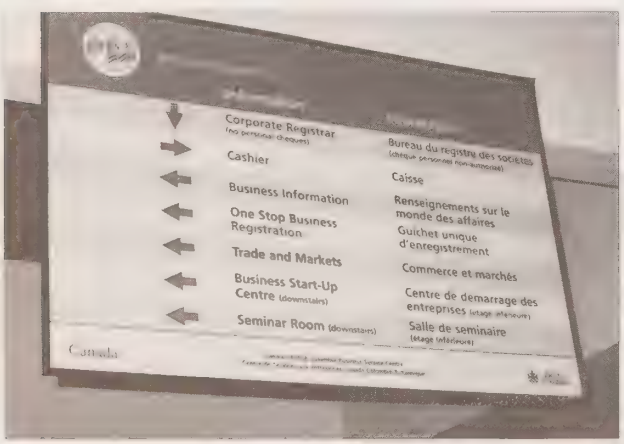
Progress in Improving Service Quality

Most service volumes have increased since 1996

1.33 Since our last audit, one of the most noticeable changes in the service lines has been the sheer volume of services they provide. Volumes are higher in 10 of 13 service lines we examined (see Exhibit 1.4). Telephone services have become increasingly prominent, while the use of counter services has declined. And numbers of written enquiries (mail, fax, e-mail), while still important in some service lines, are generally much lower.

1.34 In 1996 we noted that direct deposit payments could be a cost-effective way to reduce unnecessary telephone calls. Since then, as the current audit found, direct deposit of major payments has increased significantly. At

In most of the service lines we audited, volumes of service are higher than in 1996.



The Canada-British Columbia Business Service Centre features federal-provincial partnering to provide services for business (see paragraph 1.31).



A storefront concept provides a welcoming appearance and good access to service. The centre is located in a high traffic area.

In the large government telephone services we audited, the volume of enquiries has increased 54 percent in three years.

Where possible, we tracked trends in service performance since 1996. Some service lines showed improvement in aspects of service quality.

31 March 1999, the government was using direct deposit for 81 percent of Old Age Security payments and 77 percent of Canada Pension Plan payments — each up 17 percent since 1996. Direct deposit of Child Tax Benefit payments was at 81 percent, an increase of 24 percent over 1996.

1.35 Nevertheless, the volume of telephone enquiries overall has continued to grow. In the government telephone services we audited, the volume climbed from 36 million in 1996 to 56 million in 1999, an increase of 54 percent in three years (see Exhibit 1.5). As a result, a number of departments and agencies had to expand their telephone services. Taxation had to restructure some of its telephone operations: it now has a call centre in Toronto dedicated to telephone operations only, with counter services available at other locations. In Canada, Citizenship and Immigration Canada now provides most of the information on its services by telephone. It has consolidated 23 small telecentres into three large call centres in Vancouver, Toronto and Montreal.

1.36 Departments rely increasingly on methods of service delivery that do not require direct contact with the client. For example, improved telephone technology allows automated voice response systems to handle a higher share of simple enquiries. In 1998–99, almost 60 percent of enquiries to the telephone services we examined were handled by automated systems. Another means of service delivery is the Internet. Contacts to obtain weather information from Environment Canada's Web site jumped from fewer than two million in 1996 to well over 50 million in 1999.

Some demonstrated improvements in service quality

1.37 We asked the departments and agencies to provide us with performance results for the 13 service lines from 1 April 1996 to 31 March 1999. Where possible, we tracked trends in service performance since 1996. In some cases, we were able to assess performance in meeting service delivery targets (for example, timeliness and accessibility) established by the departments and agencies.

1.38 Four of the six telephone operations and one other service provided performance data that demonstrated improvement in at least some aspects of service quality. The four telephone operations were in:

Exhibit 1.3

Service Canada

Service Canada is a government-wide initiative undertaken in 1998 by the Treasury Board Secretariat. Its purpose is to provide Canadians with one-stop access to a range of government services in person, by telephone, or electronically through the Internet. It involves three types of services: providing general information about federal programs and services and those of other levels of government; offering multiple transactions through one-stop access points; and providing referrals to sources of more detailed information.

For 1999–2000, Service Canada's priorities included:

- putting in place an in-person service delivery network, supported by electronic and telephone infrastructure;
- laying the groundwork for the introduction of electronic transactions through the Internet; and
- enhancing the government's database for telephone inquiries.

At the time of our audit, Service Canada had completed its planning phase and the government had provided funding for a two-year development phase, to include pilot projects.

- Canada Customs and Revenue Agency (Taxation);
- Citizenship and Immigration Canada;
- Human Resources Development Canada (HRDC–Employment Insurance); and
- Human Resources Development Canada (HRDC–Income Security).

The other service was the Passport Office of Foreign Affairs and International Trade.

1.39 It is important to note that these cases reflect measured progress in only some aspects of service quality.

Exhibit 1.4

Service Volumes — 1995–96 and 1998–99

Department	Service	Volume		Increase (Decrease) Percentage
		1995–96	1998–99	
Canada Customs and Revenue Agency (Customs)	Travellers processed			
	Airports	13.4 million	18.1 million	35
	Land crossings	87.9 million	82.8 million	(6)
Canada Customs and Revenue Agency (Taxation)	General and business enquiries			
	Telephone	11.1 million	15.9 million	43
	Counter	2.6 million	2.8 million	8
Citizenship and Immigration Canada	Telephone enquiries answered	1.1 million[1]	3 million[2]	173
Environment Canada — Weather	Enquiries answered (mostly automated)	50 million	37 million	(26)[3]
Department of Foreign Affairs and International Trade — Passport	Passports issued	1.4 million	1.6 million	14
Department of Foreign Affairs and International Trade — Consular	Canadians assisted	1.5 to 2 million	2.3 million	15–53
Human Resources Development Canada — Employment Insurance	Telephone enquiries answered	19.2 million	31.2 million	63
Human Resources Development Canada — Income Security	Telephone enquiries answered	3.7 million	4.5 million	22
Industry Canada — Canada Business Service Centres	Enquiries answered (telephone and walk-in)	687,000	790,000	15
Parks Canada Agency	Visitors to parks	15.3 million	15 million	(2)
Public Works and Government Services Canada — Reference Canada	Telephone enquiries answered	748,000	848,000	13
Royal Canadian Mounted Police	Calls for police assistance	2.4 million	2.6 million	9[4]
Statistics Canada — Reference Centres	Client contacts	488,000	373,000	(24)[5]

All figures are rounded.

1 For 1994–95.
2 Includes enquiries for both immigration and citizenship, as the call centres were consolidated in 1997.
3 Decrease in telephone enquiries was due to closure of weather offices and increase in Internet access.
4 Data based on incidents recorded by RCMP's Operational Statistical Reporting system; excludes a significant number of unrecorded calls for assistance.
5 Decrease in telephone enquiries was due partly to increase in enquiries through the Internet.

Source: Departmental records (unaudited)

Departments and agencies do not always set targets for, or measure, all aspects of service quality and client satisfaction that may be relevant.

1.40 Telephone services: progress but some concerns. In 1996, we noted serious problems with accessibility of service in large telephone operations. This area shows the most significant improvement in service quality.

1.41 A caller's first priority is to gain access to the telephone system. Busy telephone lines were cited as the most common problem by respondents to the Citizens First survey (carried out for the Citizen-Centred Service Network, see paragraph 1.65). Even callers who do not

Exhibit 1.5

Telephone Operations We Examined

Departments and Operations	Number of Call Centres	Volume of Calls Handled[1]		
		By Automated Systems	By Agents	TOTAL
Canada Customs and Revenue Agency (Taxation)				
(1995–96)	47	2,100,000	9,000,000	11,100,000
(1998–99)	49	5,100,000	10,800,000	15,900,000
Citizenship and Immigration Canada — Telecentres				
(1994–95)[2]	23	664,000	450,000	1,114,000
(1998–99)	3	1,500,000	1,500,000	3,000,000
Human Resources Development Canada — Employment Insurance Info-Centres				
(1995–96)	24	13,100,000	6,100,000	19,200,000
(1998–99)	11	24,100,000	7,100,000	31,200,000
Human Resources Development Canada — Income Security Program Call Centres				
(1995–96)	8	not available	3,700,000	3,700,000
(1998–99)	10	not available	4,500,000	4,500,000
Industry Canada — Canada-Ontario Business Call Centre				
(1995–96)	1	114,000	83,000	197,000
(1998–99)	1	83,000	94,000	177,000
Public Works and Government Services Canada — Reference Canada Telecentre. National Capital Region				
(1995–96)	1	not applicable[3]	748,000	748,000
(1998–99)	1	not applicable[3]	848,000	848,000

1 All figures are rounded.
2 1995–96 data not available.
3 Does not have an automated voice response system.

Source: Departmental records (unaudited)

get a busy signal may abandon the call in frustration if the telephone continues to ring with no answer. Some may get an answer but abandon the call if they have to wait too long on hold (see Exhibit 1.6).

1.42 So an important indicator of the quality of telephone services is the proportion of calls that go unanswered (whether busy or abandoned). As Exhibit 1.7 shows, over the past three years this proportion has fallen in the four largest of the six telephone services we examined.

1.43 Nevertheless, the proportion of calls that go unanswered remains high — in 1998–99 at 10 percent and higher in the six telephone operations we examined. By comparison, good practice in the private sector puts the proportion at three to five percent.

1.44 In 1998–99, 28 percent of calls to Citizenship and Immigration Canada were not answered. In Taxation, it was 54 percent, compared with 73 percent three years earlier. The fact that five of every 10 calls go unanswered does not mean that half the callers do not get service. It does mean that many may have to make several calls before they are served.

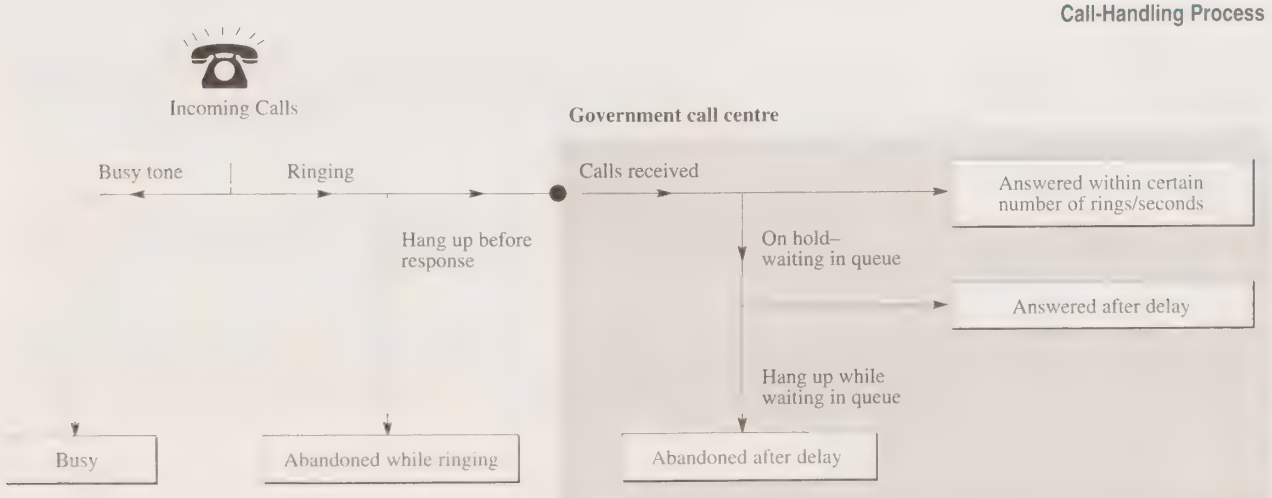
1.45 Some telephone services have established targets for the proportion of answered calls that are answered within a certain number of rings or a certain number of seconds. The largest of the operations with such targets and with performance data for several years (HRDC–Income Security) showed significant improvement. Its target for answered calls is to answer 95 percent within three rings. From achieving only 54 percent in 1994–95, this service improved to 98 percent in 1998–99. HRDC–Employment Insurance also exceeded the same target and achieved 99 percent in 1998–99.

1.46 In the other two operations with like targets (Reference Canada and the Canada-Ontario Business Call Centre), performance has declined since 1995–96. Each service has a target for answered calls of 85 percent answered within three rings. In 1995–96, Reference Canada reached 93 percent but dropped to 83 percent in 1998–99. The Canada-Ontario Business Call Centre achieved 90 percent in 1995–96, compared with 84 percent in 1998–99. In

An important indicator of the quality of telephone services is the proportion of calls that go unanswered. This has fallen, but still remains high.

Exhibit 1.6

Call-Handling Process



Telephone services show mixed performance in the length of time a caller waits on hold or in a queue.

the latter case, Industry Canada officials attributed the decline in performance to problems with staff turnover in 1998–99, which they indicated have been resolved.

1.47 Another measure of the quality of telephone service is the length of time a caller waits on hold or in a queue after the call is answered (see Exhibit 1.7). Here, the available data show mixed performance. HRDC–Income Security, the Canada-Ontario Business Call Centre and Reference Canada met their performance targets in 1998–99. In the Canada-Ontario Business Call Centre and Reference Canada, however, the wait time in queue has increased since 1995–96. The other three telephone services (Taxation, Citizenship and Immigration Canada, HRDC–Employment Insurance) did not meet their wait-time targets. However, Taxation reduced its average wait times from 111 seconds in 1995–96 to 80 seconds in 1998–99.

1.48 Service lines have generally improved telephone services by extending their hours of service. Of the telephone

Exhibit 1.7

Accessibility of Telephone Services

Departments and Operations	Calls Unanswered (Busy and Abandoned) Percentage	Wait Time in Queue	
		Target	Actual
Canada Customs and Revenue Agency (Taxation)			
(1995–96)	73	180 seconds	111 seconds
(1998–99)	54	50–70 seconds	80 seconds
Citizenship and Immigration Canada — Telecentres			
1994–95 [1]	65	no target	–
(1998–99)	28	20 seconds	50 seconds
Human Resources Development Canada — Employment Insurance Info-Centres			
(1995–96)	18	80% within 150 seconds	76%
(1998–99)	14	95% within 150 seconds	72%
Human Resources Development Canada — Income Security Program Call Centres			
(1995–96)	47	180 seconds	98 seconds
(1998–99)	10	180 seconds	37 seconds
Industry Canada — Canada-Ontario Business Call Centre			
(1995–96)	6	18 seconds	7 seconds
(1998–99)	12	18 seconds	15 seconds
Public Works and Government Services Canada — Reference Canada Telecentre, National Capital Region			
(1995–96)	8	not applicable[2]	not applicable[2]
(1998–99)	13		

1 1995–96 data not available.
2 Does not have an automated voice response system.

Source: Departmental records (unaudited)

operations we examined, all but Reference Canada make basic information accessible around the clock, seven days a week, through interactive voice response systems or automated telephone information systems. Reference Canada does not use automated systems because it provides information on many government services, and needs to interact with callers to assess their requirements. To focus more on this personal service and to support initiatives such as Service Canada, Public Works and Government Services Canada is replacing Reference Canada with a new "1–800–O–Canada" service.

1.49 **Other services.** In other service operations, we noted that the Passport Office has significantly improved its performance in issuing passports by mail within its target of 10 days from application. From 63 percent of passports issued within 10 days in 1995–96, it improved to 97 percent in 1998–99.

Some services lack information needed to demonstrate progress

1.50 Six of the 13 service lines have not provided performance information in a form that demonstrates whether they have improved service quality since 1996. In most cases, they have not tracked performance results systematically against targets or over time, or have not rolled up results annually, or have no systems to collect results measured at local levels and report national performance. The six service lines are delivered by:

- Customs (customs inspection)
- Environment Canada (providing weather information)
- Foreign Affairs and International Trade (consular services)
- Parks Canada (services to national park visitors)
- Royal Canadian Mounted Police (providing police assistance)
- Statistics Canada (providing statistical information)

1.51 These same service lines may indeed have improved service quality, given the initiatives they have taken. For example:

- Customs introduced changes to speed up the clearance of low-risk, frequent travellers entering Canada at major border crossings and at one airport.
- Environment Canada now provides more precise five-day weather predictions.
- Consular Service now operates an after-hours emergency line to Ottawa from posts abroad, supported by a computer system that allows access to case information worldwide.
- Parks Canada initiated a toll-free telephone service for reservations in national park campgrounds of Atlantic Canada, the Prairies and British Columbia. Last year it also introduced a national 1–800 number where callers can ask for general information.
- The RCMP developed a differential response model — a systematic way to identify priorities in responding to calls for police assistance. Several detachments across Canada now use this model.
- Statistics Canada introduced a client "helpline" for users of its electronic products, including Internet commercial services.

Some service lines have not provided performance information in a form that demonstrates whether they have improved service quality since 1996.

1.52 **Departments and agencies should measure the results of service performance and track them over time to identify changes in service quality and be able to demonstrate progress.**

Unsatisfactory progress with the Blue Pages

1.53 In 1990, the Public Service 2000 Task Force on Service to the Public identified the need to improve the Blue Pages — the government's telephone directory listings. The purpose was to make it easier for Canadians to find the

In 1990, the Public Service 2000 Task Force on Service to the Public identified the need to improve the Blue Pages.

right telephone number for the government service they wanted.

1.54 In 1996, we noted some changes in the structure of the Blue Pages but said that further improvement was possible. In 1997, the Treasury Board Secretariat partnered with Public Works and Government Services Canada (Government Telecommunications and Informatics Services — GTIS) to redesign the Blue Pages.

The Treasury Board Secretariat partnered with Public Works and Government Services Canada to redesign the Blue Pages.

1.55 The objective was to make the Blue Pages easier to use by listing the services of all levels of government by type of service instead of by provider (department or agency). Adding new information, such as hours of operation and Web site addresses, was to improve access to services. A new electronic platform was to be developed by June 1999 to improve the collection of information and allow for the integration of provincial and municipal information. Detailed plans were prepared, and in March 1999 the government gave the Secretariat approval to go ahead with revamping the Blue Pages. The project was to be completed by the end of 2000.

1.56 **Progress has been slow**. In the current audit, we were discouraged to find that this project has made little progress. By the end of 1999, only seven cities across Canada had completed pilot projects. The City of Kingston piloted a directory listing of three levels of government (see Exhibit 1.8). The Province of Ontario has agreed to a province-wide roll-out of the new Blue Pages in 2000, beginning with Kitchener-Waterloo. However, it is not clear to us how the roll-out in the rest of Canada can be achieved by the end of 2000.

The Blue Pages project has made little progress. A co-ordinated effort is now needed.

1.57 GTIS told us that in September 1999 it suspended work on developing the electronic platform, due to lack of funds. At the time of our audit, it was looking for alternative funding to resume the project. In the meantime, the Secretariat is continuing with its project to secure the participation of other levels of government and start negotiations with telephone companies.

1.58 The purpose for the original collaboration between the Secretariat and GTIS was to take advantage of the expertise of each. Both have to work in tandem to move the project forward. A co-ordinated effort is needed now to ensure that the benefits of the redesign are not deferred, and to minimize the project's cost. Currently, only partial cost information is available. As part of the management control framework for this project, and in order to carry out proper business-case and cost-benefit analysis, project authorities need to track total costs.

1.59 **Learning from the American experience.** A blue pages redesign project for federal listings has been under way in the United States since 1995. The U.S. Vice-President has called it an important government-wide service initiative. The project's milestone reports indicate that by the end of 1999, 37 states were using the updated directories.

1.60 The Treasury Board Secretariat took the initiative to learn from the U.S. model for its electronic platform, which was provided to Canada. The GTIS project plan includes determining the extent to which Canada can make use of the U.S. platform. In the meantime, the Ontario government has begun "Canadianizing" the U.S. model.

1.61 **Given a decade of activity already spent on the Blue Pages redesign project, the government should set realistic target dates for its timely completion and ensure a co-ordinated approach by the organizations responsible for the project.**

Exhibit 1.8

Redesigning the Blue Pages to Help the Public Find the Right Telephone Number

The Blue Pages, which contain federal and other government listings, are included in 143 telephone directories across Canada. Traditionally, names of departments have been listed rather than the program or service. Research undertaken for the redesign project showed that citizens prefer listings by function for all orders of government. They want larger print, local street addresses, hours of operation and e-mail addresses.

For example, the new Blue Pages of Kingston, Ontario use a large-type, key-word heading such as 'EMPLOYMENT' to identify employment insurance and related telephone numbers for all levels of government. The old Blue Pages of Ottawa-Hull list the telephone numbers under the names of departments, for example, Human Resources Development Canada.

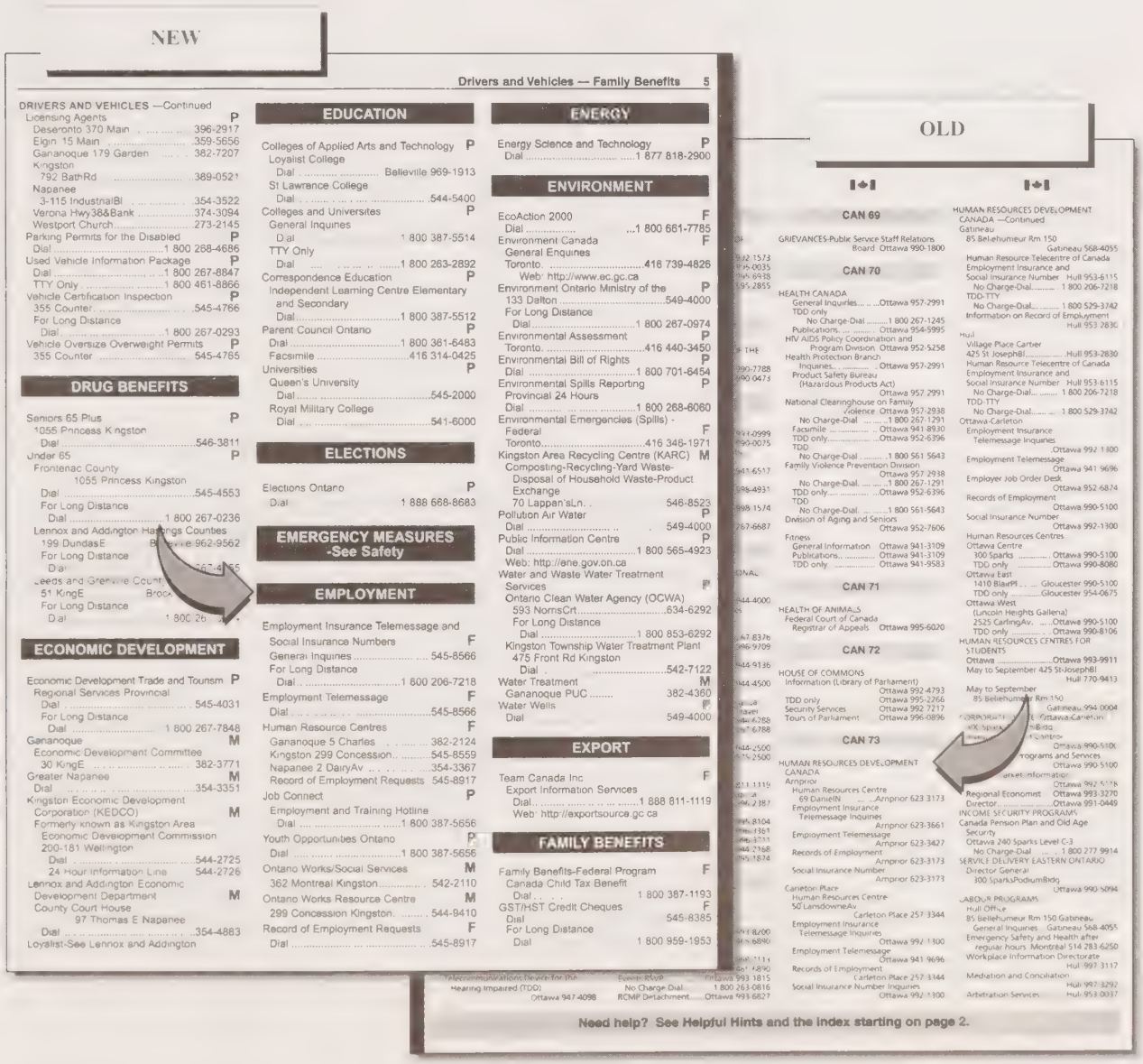


Exhibit 1.9

Examples of Innovation in Selected Service Lines

Service Line	Innovation
Department of Foreign Affairs and International Trade — Passport Office	IRIS • an information system for capturing, archiving and retrieving digital images • designed to automate passport application and issuance • intended to benefit applicants by streamlining applications for passport renewal • intended to provide enhanced security, better on-line access to databases and compliance with international standards
Industry Canada and Partners — Canada Business Service Centres (CBSC)	Interactive Business Planner • an interactive on-line tool that aids small businesses in preparing a comprehensive business plan • an entrepreneur's plan can be saved on a server at the CBSC for up to 60 days and retrieved using a name and password 24 hours a day, seven days a week
Canada Customs and Revenue Agency (Customs)	CANPASS • to speed up the clearance of low-risk, frequent travellers entering Canada at major border crossings and at one airport, through a preapproval process • CANPASS(Highway) allows qualified Canadian and United States residents to enter Canada through a designated lane without normally being interviewed by a Customs inspector • performance targets to judge the success of the program just developed in 1999, eight years after it was introduced. A number of additional problems have been identified (see Chapter 5 of this Report — Travellers to Canada: Managing the Risks at Ports of Entry)

Source: The above departments and agency

Exhibit 1.10

Rethinking, Re-engineering and Restructuring the Service Approach at Citizenship and Immigration Canada

In early 1995, Citizenship and Immigration Canada (CIC) decided to improve its methods of serving clients. Client services at that time were provided through 23 individual telecentres, case-processing centres and a network of offices across the country.

CIC's Business Planning Re-engineering initiative examined the telecentre operations and concluded that all telephone operations required networking. It identified the additional benefits that networking would provide, such as the flexibility to grow or downsize as required. The initiative concluded that telecentres should respond to clients' requests for information, and that other systems should support the telecentres. CIC decided that a small number of co-ordinated and integrated call centres would be a preferred configuration to improve client service.

Implementation of the consolidated call centres started in April 1996. CIC has undergone a complete transformation to implement a fully integrated call centre model. The new model was designed to make the call centres the first point of contact between clients and the Department, and to respond more quickly to changing service demands and priorities.

The 23 telecentres have been consolidated in three large call centres in Toronto, Vancouver and Montreal. At the time of our audit, the Department had just completed a national review of call centres. The review report, dated 4 November 1999, indicated that the consolidation had allowed CIC "to increase telephone accessibility from 30 percent to 70 percent", but that "80 percent accessibility remains an unmet objective". It also identified a number of issues that need to be resolved to move the call centres beyond the start-up stage, including customer satisfaction and continuous improvement, among other things.

Source: Citizenship and Immigration Canada

A shift toward a culture that fosters a focus on service and innovation

1.62 In 1998, Consulting and Audit Canada surveyed 55 services provided by 23 departments and agencies. The survey showed the emergence of a client-oriented service culture, "with service managers appearing to have a genuine desire to implement client-oriented service standards and satisfy clients." The 1999 Public Service Survey supported this perception, with 75 percent of respondents agreeing that their work units had client service standards.

1.63 Our own observations and interviews during our audit found a concern for service quality among public service managers and staff. Some initiatives designed to develop a stronger focus on service indicate a cultural shift. Several departments and agencies have found innovative ways to deliver services, ranging from technology applications to improvements in process. Exhibit 1.9 shows some examples.

1.64 The search for more cost-effective ways of providing services has led some departments and agencies to rethink, re-engineer or restructure their approaches. Since 1996, for example, Citizenship and Immigration Canada has completely re-engineered its service operations. It has phased out most of its counter services and adopted telephone operations as its primary channel of information on service delivery. This has included consolidating 23 telecentres into three large call centres (see Exhibit 1.10).

Measures and Targets to Judge Performance

Accessibility and timeliness of service are most widely measured

1.65 In July 1997, the Canadian Centre for Management Development established the Citizen-Centred Service Network. This is a network of more than 200 officials from federal, provincial and municipal governments, as well as academics and experts in public sector service delivery. One of its research initiatives, Citizens First, was an extensive survey of Canadians to see what they think of the quality of services their governments provide. Some 2,900 Canadians responded, and the October 1998 survey report identified timeliness as their most important gauge of service quality.

A stronger focus on service indicates a cultural shift.

1.66 In the 13 service lines we examined, we found a considerable emphasis on measuring both the accessibility and the timeliness of service delivery, especially telephone services (see Exhibit 1.11). As we have already noted, all six telephone operations have targets for accessibility and timeliness, often measuring performance by percentage of total calls answered, percentage of calls answered within a certain number of seconds or rings, and wait times in a queue (see Exhibit 1.7).

There was a considerable emphasis on measuring both accessibility and timeliness of service delivery.

1.67 Our 1996 audit report noted that service quality has other important dimensions. These include accuracy or reliability, courtesy and the service environment — the physical facilities where clients obtain service. In the current audit, we found that fewer service lines use targets and measures for these dimensions of service quality than for timeliness and accessibility.

1.68 Among the 11 services delivered by means other than the telephone, only three measure the quality of the service environment and six measure accuracy or reliability. Among the telephone services, we found that Human Resources Development Canada has made little use of its accuracy measures. However, Taxation does have a target for accuracy; it has used an independent firm to measure the accuracy of responses provided by the General Enquiries and the Business Window telephone services. In 1999, for the first time in the past few

Few service lines measure other dimensions — accuracy or reliability, courtesy and the service environment.

Managers in several service lines have not explicitly considered client priorities in setting particular delivery targets.

years, General Enquiries had an accuracy rate of over 80 percent.

1.69 All of the large government telephone services we audited have some form of internal monitoring methods such as silent monitoring of live or taped calls, "mystery shopper" techniques and peer reviews. However, these are not yet fully developed monitoring systems. Most are not used systematically to monitor telephone contacts or provide feedback to call agents. Some rely on the voluntary participation of call agents.

1.70 Departments and agencies should develop and implement systems to measure results for all aspects of quality that are important in delivering a particular service.

Better consultation with clients needed to establish targets and measures

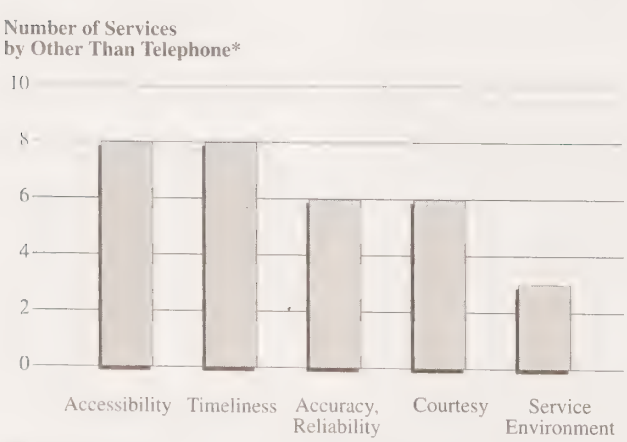
1.71 We recommended in 1996 that service managers ensure that delivery targets reflect clients' priorities. In the current audit, we found that both the RCMP and the Consular Service of the Department of Foreign Affairs and International Trade consult with clients before establishing targets. Three other services do this in part.

1.72 Managers in 8 of the 13 service lines, however, have not explicitly considered client priorities in setting particular delivery targets. For example, telephone call centres generally set service targets for such aspects as accessibility and wait time in queue without first determining the specific needs and preferences of the service line's clients.

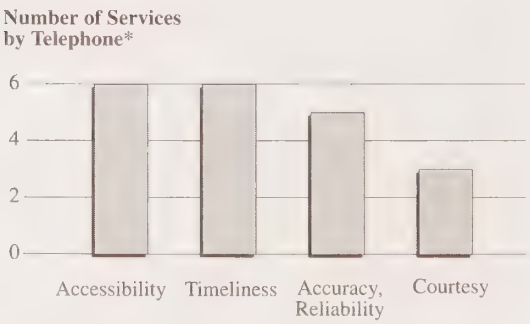
1.73 We also found that clients are not consulted enough to ensure that measures and targets are established for the dimensions of service quality that matter most to them. As an example, although call centres' systems can readily provide information to measure performance in several aspects of service, measuring those aspects alone may jeopardize other dimensions of service that are not measured as easily but are important to clients. These might include courtesy, for example, or fully meeting the client's needs in a single contact.

Exhibit 1.11

Dimensions of Service Performance That Service Lines Measure



Applicable to 11 service lines – Citizenship and Immigration Canada and Public Works and Government Services Canada (Reference Canada) provide only telephone services.



* Applicable to 6 service lines.

1.74 In some cases, the amount of time spent on each call (talk time) was used as an internal measure of performance. We believe that using this measure may put pressure on call agents to hurry the contact in order to reduce talk times. If so, clients may have to call again to deal with unresolved issues. Amex Canada Inc., which the National Quality Institute has recognized for its success in call centre operations, has consulted its clients and now focusses on resolving problems during the first call rather than measuring talk time. The Canada-Ontario Business Call Centre recognized the need to respond more fully to client enquiries and has eliminated its talk-time target while maintaining service at established levels.

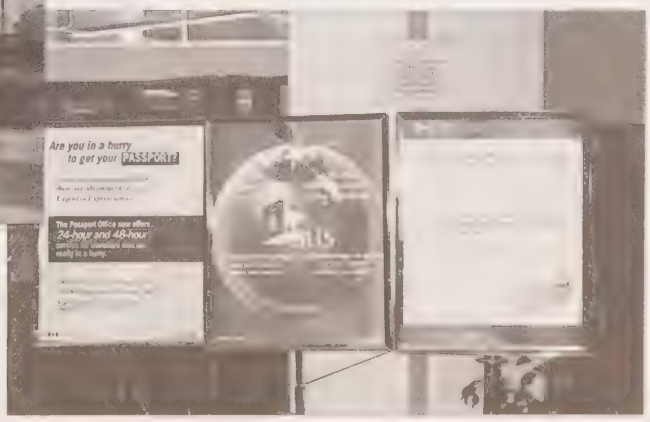
1.75 More effective service by one agent on the first call can improve the client's view of service quality. However, this requires that call agents have on-line access to databases with up-to-date information on clients' claims or applications. We found that such access is currently limited in all of the large government telephone services we



Call centre agents access on-line databases to respond to client enquiries (see paragraph 1.75).



A Passport Office's physical layout (service environment) facilitates service for applications and pickups (see paragraph 1.68).



Signs inform clients about services they need urgently (pilot project) and innovation (see paragraph 1.63).

audited. Call agents thus are not always able to answer enquiries about, for example, processing times.

Service lines have considerably improved their communication of pledges and delivery targets to clients.

1.76 Departments and agencies should consult with clients to help establish delivery targets and to ensure that they manage and measure aspects of service that matter most to clients.

Some improvement in providing key information at points of service

1.77 Since 1996, service lines have considerably improved their communication of pledges and delivery targets to clients, in brochures and pamphlets made available at points of service (see Exhibit 1.12). The brochures and pamphlets usually describe the service, make pledges for matters such as fairness and courtesy, and set out their targets for service delivery. The service lines have also posted pledges and commitments to quality of service on their Web sites.

Very few service lines provide clients with information on service costs or performance toward targets.

1.78 In communicating other key information to clients at points of service, however, the service lines we audited have made less progress (see Exhibit 1.12). Although some service lines provide information on how clients can lodge complaints and obtain redress, very few provide performance results against targets, or information on service costs.

1.79 Departments and agencies should communicate to clients at points of service the results each service has achieved, the cost of providing it, and the complaint and redress mechanisms available to clients.

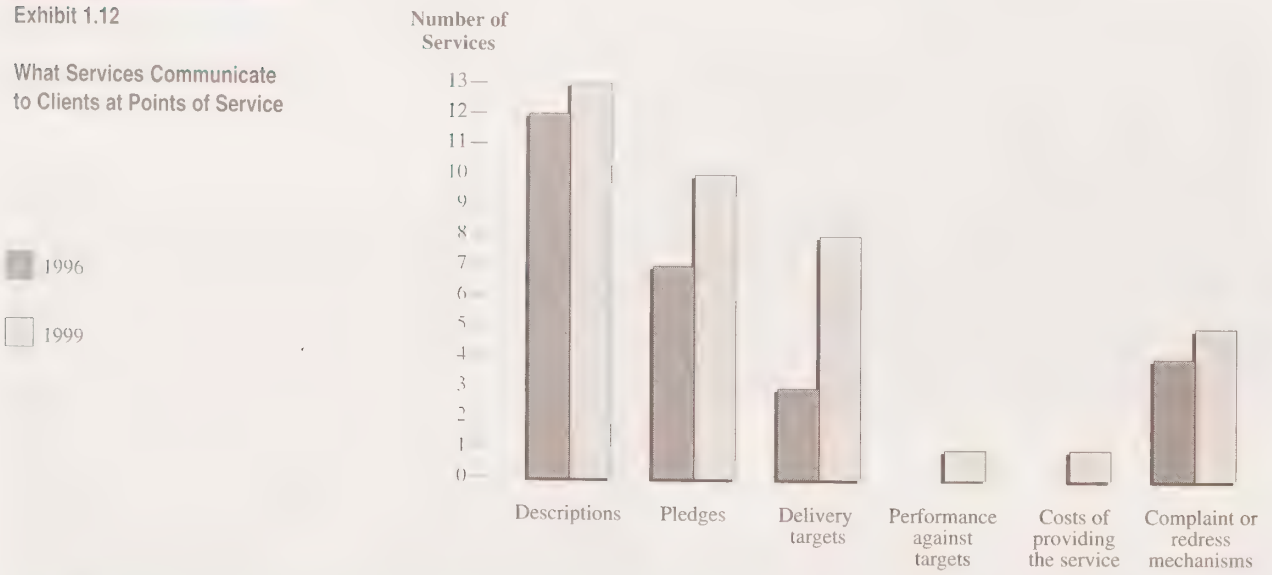
Managing for Continuous Improvement in Service Performance

1.80 We examined service managers' efforts to continue improving service quality. These included:

- conducting surveys of client satisfaction;
- conducting audits and evaluations;
- developing action plans for continuous improvement;
- benchmarking;
- establishing complaint and redress mechanisms; and
- analyzing and using performance data.

Exhibit 1.12

What Services Communicate to Clients at Points of Service



1.81 We found that the use of these techniques for continuous improvement varies (see Exhibit 1.13). Several service lines — the Passport Office, Taxation, Customs, Environment Canada and the RCMP — have made consistent efforts using almost all of the techniques to identify areas that need to improve.

Increased use of surveys and reviews to help identify areas for improvement

1.82 We found that client satisfaction surveys have been widely used at varying intervals and on a national, local or case-by-case basis. Apart from Customs, Taxation and Statistics Canada, however, service managers generally were not using the surveys to ask clients about their priorities or to help identify the dimensions of service quality that are key to client satisfaction.

1.83 Parks Canada has monitored visitor satisfaction for several years by such means as visitor feedback cards, formal surveys and, occasionally, public consultation. However, client satisfaction surveys in the 9 parks we examined had uneven coverage of service dimensions. The surveys covered courtesy in 6 of the 9 parks and the service environment in 7, but none covered all dimensions of service. Parks Canada recognizes the need to improve its measuring of visitor satisfaction. It has piloted a series of standardized surveys that it is now introducing in all parks.

1.84 Ten of the 13 service lines we examined have carried out reviews (audits or evaluations) of service delivery. However, we noted that most of the reviews have not adequately assessed systems and practices for measuring service performance; nor have they reported the results they have achieved toward established targets.

More action plans for continuous improvement

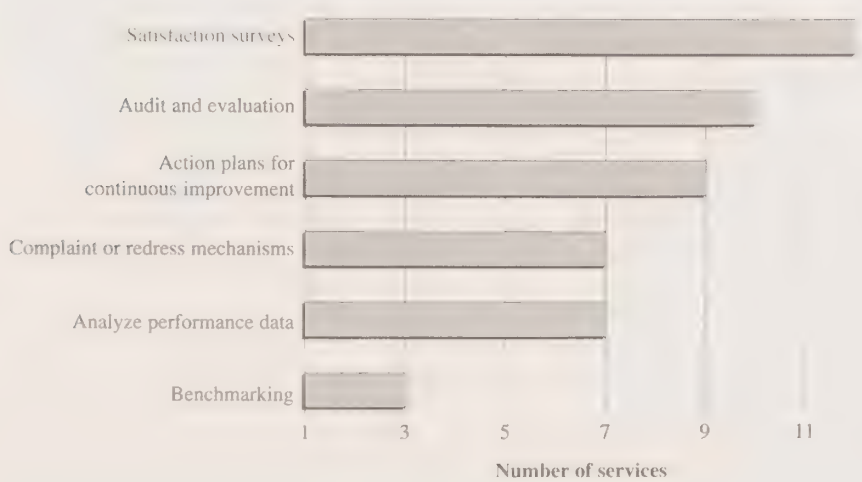
1.85 We recommended in 1996 that service managers develop and follow action plans to improve service. In the current audit we found some progress: 9 of the 13 service lines have some form of action plan for continuous improvement. However, some of the plans take the form of fairly general information on future activities, reported in departmental or business line plans. Those plans lack specific details on their implementation, timelines, responsibilities and budgets.

1.86 We are encouraged to note that the interdepartmental Assistant Deputy Minister Advisory Committee on Service and Innovation, led by the Treasury Board Secretariat, undertook a project in 1998 to

Several service lines have made consistent efforts, using a variety of techniques, to identify areas that need to improve.

Exhibit 1.13

Methods Managers Use to Improve Service Quality



Call centres have not compared their performance with "best in class" results elsewhere.

The majority of the 13 service lines were collecting at least some data on service performance and analyzing it to help identify opportunities for improvement.

assist departments in designing and implementing service improvement plans.

Little use of benchmarking

1.87 Three of the service lines make systematic use of benchmarking to compare their practices and performance with similar organizations in other jurisdictions or in the private sector. We noted, however, that service managers in call centres we examined have not compared their performance with "best in class" results elsewhere.

1.88 The use of effective scheduling tools can improve the management of call centres. Unlike Amex Canada Inc., the call centres we examined have not adopted computerized scheduling systems to forecast workload and deploy call agents. In service lines where the demand for telephone services is volatile, scheduling can be critical. Exhibit 1.14 shows accessibility (calls answered) in Taxation over the past three years. While it is encouraging to note that the underlying trend in the proportion of calls answered climbed steadily from April 1996 to March 1999, the proportion continues to fluctuate widely.

1.89 Departments and agencies should use benchmarking as a source of learning about good practices to help identify opportunities for continuous improvement.

Complaint and redress mechanisms need improvement

1.90 In 1996 we recommended that service managers systematically collect and analyze complaint data and other feedback from clients, and devise methods to prevent mistakes from recurring.

1.91 The current audit found that complaint and redress mechanisms are still inadequate. Clients need to know the names and addresses of officials responsible for receiving complaints about service quality. For example, at certain border ports of entry, Customs has provided complainants with addressed envelopes. However, more than half of the service lines do not provide adequate information to clients at points of service on how to lodge a complaint. Further, without good mechanisms to collect data on complaints systematically, there is little opportunity for analyzing complaints as a way to identify opportunities for improvement.

1.92 Departments and agencies should demonstrate their commitment to service quality by informing clients at points of service on how they can lodge and resolve complaints.

Some progress in analyzing and using information on service performance

1.93 We recommended in 1996 that service managers collect, analyze and use information on service and cost performance to determine the highest quality of service they can provide at an affordable cost. We found that some have made progress since then. The majority of the 13 service lines were collecting at least some data on service performance and analyzing it to help identify opportunities for improvement.

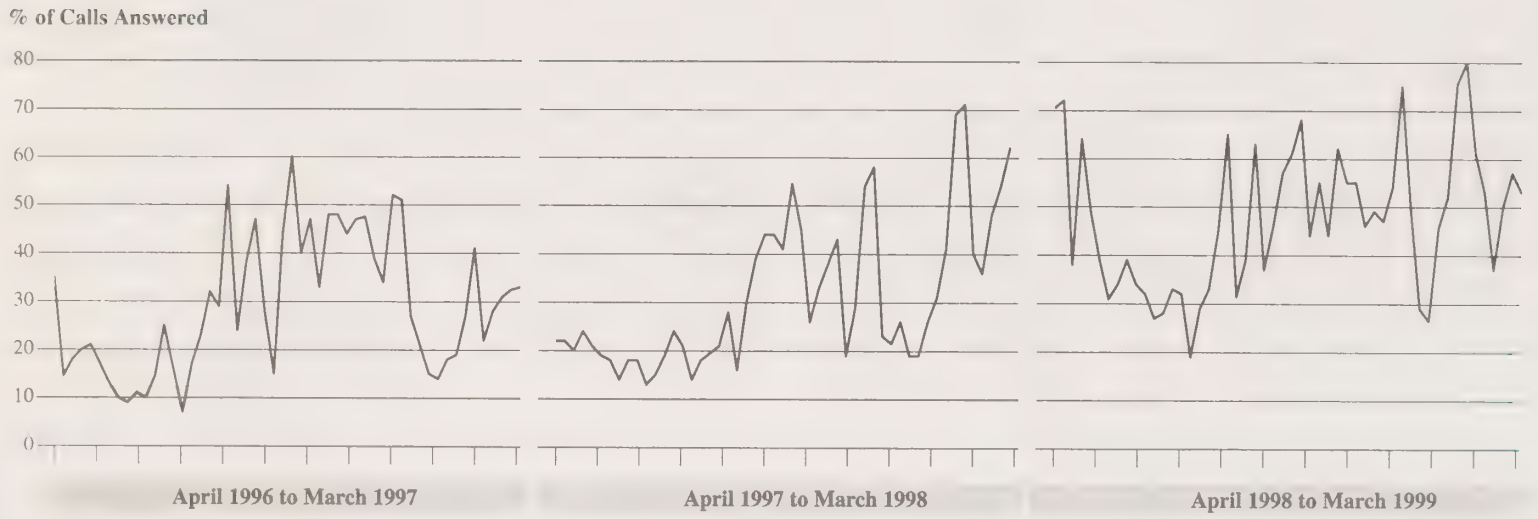
1.94 We also recommended in 1996 that service managers (including telephone centre managers) collect and use performance data to analyze persistent problems of accessibility and to devise appropriate remedies. In the current audit we found that only three of the six telephone operations — Taxation, and Human Resources Development Canada's Employment Insurance and Income Security programs — have made satisfactory progress in responding to this recommendation.

1.95 Service managers have established credible performance measures for some aspects of service quality. Frequently, however, they lack enough good information on costs to

Exhibit 1.14

National Variation in Accessibility of Telephone Services
Canada Customs and Revenue Agency (Taxation)

April 1996 to March 1999*



* Drawn from weekly data

Source: Canada Customs and Revenue Agency

assess the cost effectiveness of the level of service quality they have achieved.

1.96 We found that where a service involves user fees or cost recovery, better cost information is generally available. For example:

- Parks Canada established a revenue policy in May 1998 requiring that direct, indirect and capital costs be included in determining the cost of services.

- The $25 service fee included in the cost of a passport is based on both direct and indirect costs of consular services.

- The Passport Office is self-funding: it recovers its costs from the fees it collects for passport services. It also uses accrual accounting in its financial reporting systems.

- Statistics Canada collects information on direct and indirect costs and analyzes it to determine the cost of its products.

Without good cost information, service managers do not have the information they need to provide the highest quality of service at the lowest possible cost.

1.97 We are concerned that without good cost information, service managers do not have the information they need to provide the highest quality of service at the lowest possible cost.

1.98 For example, we noted that because Public Works and Government Services Canada pays for their facilities, departments and agencies do not always include facility costs in the cost of providing their services. Departments or agencies with telephone operations have their own call centres, and they may have overlooked opportunities to save costs by sharing facilities. Furthermore, major government call centres we visited in Toronto and Vancouver are located downtown, where costs are high. By comparison, Amex Canada Inc. has located its only call centre well outside of downtown Toronto.

1.99 Departments and agencies should collect, systematically analyze and use performance information, including cost information, to manage performance and continuous improvement.

Reporting to Parliament on Service Quality

1.100 In 1996 we found that departments and agencies needed to improve their reporting of service performance. The Standing Committee on Public Accounts also recommended that in their Performance Reports, departments and agencies include information on their service performance.

1.101 In its 1998 response to the Public Accounts Committee, the government committed itself to "ensuring that solid performance information on service delivery [is] available to Parliament and the public through Departmental Performance Reports and the Reports on Plans and Priorities." In our view, this means that departments are to report clearly on how well they are serving Canadians.

1.102 Departments and agencies are also required to report on how they are implementing the Quality Services Initiative. In particular, guidance from the Treasury Board Secretariat states that they should "tell the performance story" of service delivery. They are expected to make this a primary focus of their Performance Reports. Departments are also asked to report their progress toward focussing on the needs of citizens and clients.

1.103 We examined the performance information published on the 13 service lines in Reports on Plans and Priorities and Departmental Performance Reports for 1997 through 1999. We also examined the President of the Treasury Board's annual report to Parliament for those years. We classified the service quality information in those reports as expectations (or objectives), descriptions or results. We distinguished between general information on results and

information linked directly or indirectly to previously stated expectations.

1.104 We expected that departments would tell in their Reports on Plans and Priorities how and to what extent they intended to improve service quality. We also expected that they would focus on the key service accomplishments and report them in their Performance Reports against previously stated expectations.

Reporting to Parliament on service quality has improved

1.105 The Reports on Plans and Priorities and Departmental Performance Reports were introduced only recently. Managers told us that performance reporting is still evolving and they plan to improve their information on service performance in the coming years.

1.106 Some improvements are already evident. In particular, the amount of information reported to Parliament on service performance increased significantly between 1997 and 1999. In our judgment, the information is also more meaningful. As Exhibit 1.15 shows, the proportion of information on results that we could link to expectations increased from 37 percent in 1997 to 64 percent in 1999 (although it decreased somewhat from 1998 to 1999). However, the links between results and expectations were not always explicit and we had to analyze the documents closely to identify some of them.

Several areas need more attention

1.107 We identified areas where departments and agencies still need to improve their reporting to Parliament on service quality.

- To show the progress they have made, departments and agencies need to report trends in service performance and adequately explain changes over time. We found that they have reported very little information on trends, although slightly more in 1999 than in 1997. The departments and agencies delivering 6 of the 13 services we examined had included some limited information on trends in their 1997 Performance Reports. By 1999, 8 of the services were reporting such information.

- Balanced reporting — reporting that shows both strong and weak performance — enhances credibility. We found that this area needs attention. Negative aspects of service performance or service quality initiatives are seldom reported. The RCMP Performance Reports, which

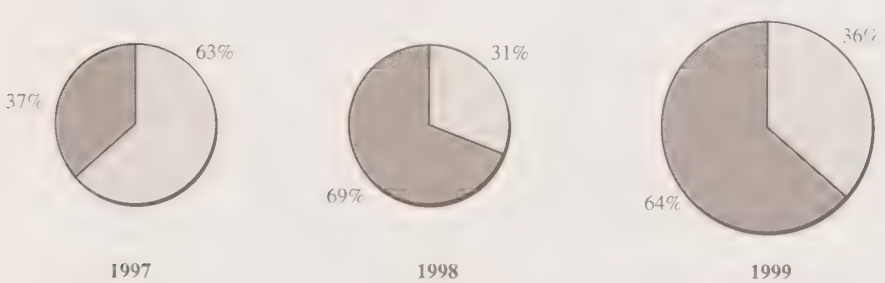
The amount of information reported to Parliament on service performance increased significantly between 1997 and 1999. The information is also more meaningful.

Negative aspects of service performance or service quality initiatives are seldom reported.

Exhibit 1.15

Service Performance Information Reported to Parliament

(13 service lines)



Note: Changes in size of "pie charts" reflect changes in the amount of service performance information reported.

Source: Office of the Auditor General analysis of Departmental Performance Reports

discuss weaknesses in tracking client satisfaction, are an exception.

- The reporting of cost information is an area of significant weakness. We found almost no information on the costs of specific initiatives to improve service quality, nor cost information that would help put results into perspective.

- Information on service quality must be understandable and placed in context to be useful to parliamentarians. We found that departments and agencies tend to present general information about services clearly, but are less clear in explaining expected and actual results. For example, the impact of external factors on service outcomes is often not explained.

Departments and agencies have reported very little information on trends in performance.

1.108 We recognize that performance reporting is evolving, and that service quality is only one element that departments report to Parliament. Nonetheless, the government has committed itself to improving service quality and is accountable to Parliament and the public for results.

1.109 Departments and agencies should clearly show in their Reports on Plans and Priorities the results they expect in service performance. In the corresponding Performance Reports, they should link those expected results to clear statements of the results they have actually achieved.

1.110 Departments and agencies should provide more balanced and complete information to Parliament on the results of their service performance. This should include information on both strong and weak performance, on trends, on costs and on external factors that affect service outcomes.

Guidance and Support by the Treasury Board Secretariat

1.111 In our 1996 audit report we outlined the Treasury Board Secretariat's responsibilities for the government's quality service initiatives. The Secretariat's approach at the time involved providing departments with support in meeting their performance objectives, acting as a catalyst to remove constraints, and celebrating innovation and success. We recognized the value of the Secretariat's activities in providing departments and agencies with guidance that clearly presented the quality management approach.

1.112 We recommended that the Secretariat encourage departments to take key steps toward a focus on clients and improved service quality. The Standing Committee on Public Accounts recommended that the Secretariat publish a framework for implementing the Quality Services Initiative, set a final date for its completion and provide departments with guidance and incentives to ensure its successful completion. In its April 1998 response to the Committee, the government did not accept the recommendation to set a final completion date. It stated that it was "continuously improving the quality of services to Canadians, [which] cannot receive attention for a fixed period of time only."

1.113 In 1997, a progress report from the President of the Treasury Board described the Quality Services Initiative as a three-year strategy to improve client satisfaction with the quality of service delivery. In its April 1998 response to the Public Accounts Committee, the government made a commitment to citizen-centred service delivery that would "broaden the former quality services initiative...to include new integrated approaches to service delivery such as single windows and partnerships."

The Secretariat provided guidance and support to departments but was generally less active in 1996–97 and 1997–98 than since early 1998.

The Treasury Board Secretariat's guidance and support has been uneven

1.114 The Secretariat has supported service quality initiatives in a number of ways since our last audit, and has continued some actions that were under way at that time. It continued its guidance

and support to departments but was generally less active in 1996–97 and 1997–98 than since early 1998.

1.115 The following paragraphs set out some of the key guidance and support activities of the Secretariat since 1996. Exhibit 1.16 provides additional information.

1.116 In late 1997, the Secretariat and the National Quality Institute together developed a self-assessment tool called "Achieving Citizen/Client Focused Service Delivery, A Framework for Effective Public Service Organizations — The Quality Fitness Test." Its purpose was to help public servants and departments assess how well they were applying principles of service quality. Secretariat officials told us that in 1998–99 approximately 600 public servants were trained to use the Framework.

1.117 The Secretariat has continued since 1996 to support interdepartmental co-ordinating and working committees. It provides advice and guidance through an

Exhibit 1.16

Selected Activities by Treasury Board Secretariat (TBS) to Support Service Quality Since April 1996

Date	Continued* or New	Activities
Since April 1996	Continued	Assistant Deputy Minister Advisory Committee on Quality Service — key co-ordinating committee.
Since April 1996	Continued & New	Interdepartmental Quality Network — now Interdepartmental Service and Innovation Network with greater regional involvement.
Since April 1996	Continued	TBS call letters/guidelines — departments to provide service quality information in Business Plans, and in Estimates documents reported to Parliament.
September 1996	Continued	Quality Services guides — last guide in the series issued and distributed to departments.
October 1996	New	Telephone services/call centre interdepartmental working groups.
March 1997	New	Quality Services —A Progress Report 1996 (public, but not tabled in Parliament).
November 1997	New	National Quality Institute and TBS published *Achieving Citizen/Client Focussed Service Delivery, A Framework for Effective Public Service Organizations, The Quality Fitness Test.*
February 1998	New	TBS reorganization established Service and Innovation Sector.
June 1998	New	Survey of Departmental Progress in Developing and Implementing Service Standards.
December 1998	New	Initial funding approved for Service Canada.
December 1998	New	Common Measurements Tool developed for CCMD, TBS encouraging its use.
February 1999	New	Service Improvement Planning — TBS initiated work with departments to develop guidelines.
July 1999	New	Service Canada development phase — pilot projects.
November 1999	New	InnoService — Web site (under construction) to provide public service information on improving service quality.

* Action continued from period prior to April 1996.

Source: Treasury Board Secretariat documentation

advisory committee of assistant deputy ministers. The committee met infrequently in 1996–97 and 1997–98. Since September 1998, it has met regularly and has co-ordinated a number of projects.

1.118 The Secretariat has given support to other quality networks, including the specialized Interdepartmental Call Centre Network and the Interdepartmental Service and Innovation Network. The latter was established to provide leadership for service improvement by sharing expertise among departments and fostering regional input.

1.119 The Secretariat has continued to sponsor regular events (such as "quality month"), to publish newsletters and to arrange visits and exchanges with other jurisdictions. These activities have contributed to interdepartmental communication, identification of best practices and celebration of success.

1.120 In early 1998, the Secretariat established a Service and Innovation Sector, with a mandate to focus on government-wide approaches. It then developed an action plan to advance citizen-centred service delivery, based on increasing Canadians' access to service and improving service performance.

1.121 In December 1998, Service Canada was established as a unit to provide Canadians with one-stop access to a range of government services in person, by telephone or electronically through the Internet (see Exhibit 1.3). At the time of our audit, the Secretariat was also developing InnoService — a Web site designed to inform public servants on how to improve service delivery.

1.122 Because departments' actions to improve service quality form part of a government-wide initiative, central co-ordination is required. Service Canada was established in response to this need. The Treasury Board Secretariat, as the responsible central agency, has accepted a role in providing guidance and support to departments and agencies. It needs to sustain a high level of attention to improve Canadians' satisfaction with the services they receive.

Reporting on Government-Wide Progress

1.123 In our 1996 audit report, we noted that the Treasury Board Secretariat was responsible for assessing progress in improving service quality and for reporting that progress to Cabinet and Parliament. At the time, it had provided little information to Parliament and we recommended that it report clearly to Parliament on the government's progress. The Standing Committee on Public Accounts also recommended that the Secretariat report progress annually to Parliament.

1.124 To report at a government-wide level, the Secretariat needs to monitor the progress of departments and agencies in implementing initiatives and improving service quality. In its response to the Public Accounts Committee, the government stated that it was important to monitor progress regularly and that the Secretariat would be "studying appropriate ways of monitoring departmental performance and reporting on progress to improve service delivery for the government as a whole."

To report at a government-wide level, the Secretariat needs to monitor the progress of departments and agencies in implementing initiatives and improving service quality.

Government-wide progress has not been monitored systematically

1.125 Until recently, the Treasury Board Secretariat relied on departmental business plans for information on service quality. However, the nature of the information it requested varied from year to year. To obtain a government-wide view, the Secretariat identified service delivery as one of several issues to be given special attention in the 1998–99 business plans. It also set out its expectations in greater detail than it had in previous years. However, annual business plans cannot be used to monitor progress

now that departments are no longer required to submit them.

1.126 In the spring of 1997, Statistics Canada repeated a survey it had done in 1995 on behalf of the Secretariat. The survey showed that the federal public service was now making more use of practices designed to improve or maintain the quality of services. Consulting and Audit Canada carried out a survey for the Secretariat in the winter of 1998. That survey found that 48 of the 56 service providers who responded had standards in place for their services, and another 5 planned to have them later that year. These surveys, though potentially useful elements of a monitoring strategy, did not provide the information needed to assess departments' improvement of service quality.

1.127 In our view, the Secretariat has not adopted a systematic approach to monitoring the government's progress in improving service quality. This lack of systematic monitoring has impeded the Secretariat's ability to report results to Parliament.

1.128 Information on the progress departments and agencies are making is required not only for reporting but also to co-ordinate the government-wide initiative on service quality. Specifically, information on progress is needed to assess whether the government is meeting its commitments and to provide a sound basis for corrective action where progress is inadequate. In addition, the Secretariat needs to monitor progress in order to provide departments and agencies with appropriate guidance and support.

Treasury Board Secretariat needs to improve its reporting to Parliament

1.129 In March 1997, the President of the Treasury Board published a progress report on the Quality Services Initiative. The report provided an overview of the government's progress and made recommendations to departments. It stated that the Secretariat would monitor progress on those recommendations and would report in 1997–98. The Secretariat did not table this progress report in Parliament and has produced no further reports of this nature.

1.130 The Secretariat's own annual Performance Reports have provided Parliament with some useful information on service quality — for example, summaries of surveys on service delivery to the public. In the Performance Report it tabled in 1997, the Secretariat committed itself to include in future reports its analyses of the extent to which departments have integrated service quality into their operations. Although it reiterated this commitment in its Performance Report the following year, neither its 1998 nor its 1999 report presented any such analysis.

1.131 The President of the Treasury Board's Annual Report to Parliament, "Managing for Results 1999", noted the need to improve reporting to Parliament on matters that involve many departments. The Report also says, "Progress in achieving the goal of improved citizen satisfaction with service delivery will be measured through surveys of citizens' expectations and satisfaction undertaken every two years in co-operation with provincial governments." Results from such a survey are expected to be available in the fall of 2000.

1.132 Although these developments are promising, in our opinion the information so far reported by the Secretariat has not been adequate to give Parliament a clear indication of the government's progress in improving service quality.

1.133 The Treasury Board Secretariat should develop effective ways to monitor systematically and report to Parliament the government's progress in improving the delivery of services to Canadians.

The information so far reported by the Secretariat has not been adequate to provide Parliament with a clear indication of the government's progress in improving service quality.

Conclusion

Service quality has shown some improvement since our 1996 audit.

1.134 Nature and extent of progress. We concluded that service quality has shown some improvement since our 1996 audit. Improvements were most evident in telephone operations, where performance is more likely to be measured systematically. Despite the improvements in service, however, telephone operations still need work. The proportion of calls that are not answered remains high, and delivery targets for aspects of service like wait time in queue are not always met.

1.135 We were discouraged to find slow progress on the project to improve the government's telephone directory listings (the Blue Pages). In our view, it will be difficult for the government to meet its target of completing the project by the end of 2000.

None of the recommendations from our 1996 audit has been implemented fully.

1.136 With the exception of the Passport Office, which has improved the timeliness of its service since 1996, we were unable to obtain the information needed to measure changes in the quality of services provided by means other than the telephone. These other services have taken steps to deliver services in more cost-effective and innovative ways but have not adequately measured the results.

1.137 Measuring and reporting service results. All telephone operations we examined have established measures and targets for accessibility and timeliness. However, departments and agencies do not always set targets for other aspects of service quality or measure client satisfaction.

More effort is needed to achieve continuous improvement in service delivery.

1.138 We concluded that clients were not consulted sufficiently to ensure that measures of performance would be in place for those aspects of service that matter most to them, or that delivery targets take clients' expectations and priorities into account. There has been some improvement since 1996 in communicating key information to clients at points of service. However, more needs to be done to inform clients about whether results have met targets, how much it costs to provide a service, and how to lodge a complaint and obtain redress.

1.139 We found that since our last audit, Parliament has been given more information on service performance and the information is more likely to be meaningful and to help put results into perspective. However, improvement is needed in reporting performance trends, providing more balanced information and reporting costs.

1.140 The role of the Treasury Board Secretariat. The Treasury Board Secretariat has provided departments and agencies with guidance and support that has become more active since 1998. However, we concluded that it has not systematically monitored the government's progress in implementing service quality initiatives and improving service quality. As a result, the information it reports to Parliament has not been adequate to clearly indicate the government's progress in improving the quality of services to Canadians.

1.141 Implementation of 1996 recommendations. The Treasury Board Secretariat and other departments and agencies have acted to some extent on all of the recommendations we made in 1996. However, the response has been uneven and none of the recommendations has been implemented fully.

1.142 Managers of the service lines we examined have used several techniques for continuously improving service delivery. These include conducting client satisfaction surveys and reviews and establishing action plans. We concluded that more effort is needed to collect, analyze and use performance information (including cost information) in managing performance and continuous improvement. In addition, benchmarking would be a way to learn about good

practices in other organizations, and better use could be made of data on complaints.

Government's overall response: *We agree that client satisfaction is an essential element for the provision of services offered by the government to the public. The government is committed to meeting client needs and expectations and we trust that this chapter will further our joint goals to improve the quality of service offered to Canadians.*

Service improvement in all areas of government operations continues to be a major priority of the Treasury Board Secretariat and all government departments. The Secretariat emphasized this imperative with the creation in 1998 of the Service and Innovation Sector as a Policy Centre within government, to lead government-wide initiatives to improve the delivery of services to Canadians. The Sector is building on the initial work done under the Quality Services Initiative to develop a broader, citizen-centred approach to service improvement. For this purpose, the Sector is working closely with the leaders of service delivery across the government.

The chapter indicates that the number of telephone calls received by government in the 13 service lines examined rose from 36 million in 1996 to 56 million in 1999, a 54 percent increase in three years. We are pleased to note that the audit revealed that "the most significant improvement in service quality" has occurred in the area of telephone accessibility.

An important element of the government's commitment to make service more citizen-centred is Blue Pages redesign. Canada has become a leader in the field of redesigning government telephone listings in public directories by successfully integrating all levels of government into one easy-to-read directory format. Implementation of the new directory format will occur according to publication schedules established in co-operation with the telecommunications industry and with provincial and municipal governments.

The Secretariat agrees with the Auditor General's recommendations on measurement, client satisfaction and reporting. Much good work has been done by many departments in these areas. The Secretariat will continue to work with departments to assist them in monitoring and reporting on service quality in an integrated way, together with other information on results and performance, through the annual planning and reporting process.

The Secretariat is also working with departments to develop an approach to planning and implementing service improvement that will promote continuous improvement in service delivery across the government.



About the Audit

Objectives

The objectives of the audit were to determine:

- the nature and extent of progress made by departments and agencies in improving the quality of their services since our 1996 audit;
- whether departments and agencies have measured results and reported them to Parliament;
- whether the Treasury Board Secretariat has assisted departments and agencies in implementing the government's commitments to service quality, and whether it has reported to Parliament on the government's progress in improving service; and
- whether departments and agencies have acted on our 1996 audit recommendations and on related recommendations made by the Standing Committee on Public Accounts.

Scope

The scope of the audit included the Treasury Board Secretariat and 10 departments and agencies, focussing on the 13 services that we examined in our 1996 audit.

We placed particular emphasis on performance results. The audit covered the period from 31 March 1996 to 31 October 1999.

Approach

We first collected performance data and supporting documentation from departments and agencies, and then analyzed that information. We reviewed the performance information and assessed it in light of our audit criteria; we did not audit its accuracy. Where necessary, we discussed the data and reports with service managers and staff and carried out follow-up interviews.

We conducted on-site visits to observe the front-line operations of several high-volume service centres. In addition, we reviewed information reported to Parliament from 1997 to 1999 on the performance of the 13 service lines. We also examined the part the Treasury Board Secretariat has played in promoting and supporting government-wide initiatives for service quality.

Criteria

We expected that:

- departments and agencies would have made improvements over time in providing cost-effective services to Canadians;
- departments and agencies would have delivery targets that address key aspects of service delivery, reflect client priorities and are communicated to clients;
- measures of the quality of services delivered, and of costs incurred, would be credible and allow a determination of the extent to which performance targets have been met;

- departments and agencies would tell clients what the service costs, and use service and cost performance information as a basis for determining the highest-quality service that can be provided at an affordable cost;
- departments and agencies would measure performance against delivery targets, report it to clients and use performance information to improve service results;
- departments and agencies would establish adequate complaint and redress mechanisms;
- performance information reported by departments and agencies to Parliament would be relevant, understandable and balanced, and would include associated costs;
- the Treasury Board Secretariat would provide guidance and support to departments and agencies in implementing the government's commitments to improve the delivery of services to Canadians; and
- the Treasury Board Secretariat would monitor progress and report to Parliament on the government's progress in improving service delivery.

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Appendix A

Recommendations of the 1996 Audit

(Excerpts from the September 1996 Report of the Auditor General to the House of Commons, Chapter 14, Service Quality)

Service managers should ensure that delivery targets reflect client priorities.

The Treasury Board should encourage departments to publish service standards and to report performance against them at points of service.

Service managers should collect, analyze and use service and cost performance information as a basis for determining the highest-quality service that can be provided at an affordable cost.

Service managers should clearly communicate to clients how complaints can be made and how they will be redressed. Service managers should also systematically collect and analyze complaint data and devise methods to prevent mistakes from recurring.

Service managers (including telephone centre managers) should collect and use performance data to carry out systematic root-cause analyses, and devise appropriate remedies for resolving persistent problems of accessibility.

Deputy ministers should ensure that departments focus efforts on major services and should make senior officials accountable for implementing service standards.

Service managers should develop and follow action plans that include all key features for the implementation of service standards.

Treasury Board Secretariat should report clearly to Parliament the government's progress in implementing the Service Standards Initiative.

Appendix B

Recommendations of the Standing Committee on Public Accounts

(Excerpts from the Fifth Report of the Standing Committee on Public Accounts, April 1997)

The Committee recommends:

That Treasury Board Secretariat develop and make public its implementation framework for the Quality Services Initiative by 30 September 1997. Particular reference must be made to achieving service standards within the context of the Initiative.

That Treasury Board Secretariat lead the Quality Services Initiative by establishing, in co-operation with the departments, a final target completion date for the entire initiative, and by providing guidance and incentives to the departments to ensure that this initiative is completed successfully.

That by 30 September 1997 Treasury Board Secretariat make public the target implementation date for the Quality Services Initiative.

That all departments delivering services directly to Canadians establish plans for implementing the Quality Services Initiative. These plans must include a timetable for full implementation, including target dates for publication of service standards, and must be made available to Parliament and the public.

That departments, as an integral part of establishing standards for the services they provide, consult those receiving services and take their needs into account before final implementation occurs.

That departments make public the standards they have established for the services they deliver to Canadians and report performance against these standards in either Part III of their Estimates, or when appropriate, in performance reports tabled in the House of Commons in the fall.

That Treasury Board Secretariat report annually to Parliament on the progress being made in the development and implementation of service standards throughout government, either in Part III of its Estimates, in its performance report, or in a separate document designated for this purpose.

That departments with telephone services publish service standards governing accessibility and accuracy of answers, that they collect and analyse client complaints about telephone services, and that they regularly measure and publicly report performance against the standards they have established.

That departments engaged in paying benefits continue with efforts to enhance the use of direct deposits as the principal means of payment.

Report of the Auditor General of Canada to the House of Commons – 2000

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Chapter 2

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Report of the Auditor General of Canada to the House of Commons

Chapter 2
Human Resources Development Canada –
Service Quality at the Local Level

April 2000

Report of the Auditor General of Canada to the House of Commons

Chapter 2
Human Resources Development Canada –
Service Quality at the Local Level

April 2000

This April 2000 Report comprises 9 chapters as well as a Foreword and Main Points. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

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Chapter 2

Human Resources Development Canada

Service Quality at the Local Level

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.

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Human Resources Development Canada

Service Quality at the Local Level

Main Points

2.1 Human Resources Development Canada (HRDC) has made considerable progress in addressing service quality. National initiatives in recent years have included developing a policy to guide its approach to high-quality service, implementing a new service delivery network to make services more accessible to Canadians and setting out national service commitments to clients. Initiatives at the local level include upgrading the service-related skills of employees and using new technologies.

2.2 Although HRDC has defined national service commitments, we found they are not communicated consistently to clients at points of service. Further, local offices do not consistently inform clients about performance toward service delivery targets, the cost of services, and how to lodge complaints about the service received and obtain redress.

2.3 The Department does not have performance measures for all of its national service commitments. Measures of service performance focus on waiting time for counter services and the speed of processing and payment, but there are weaknesses in the measurement of both these indicators.

2.4 Despite improvements in the timeliness of Employment Insurance payments over the past three years, estimated incorrect payments have increased over this period from $4 to $6 for every $100 paid out. Available information shows that both underpayments and overpayments have increased for a variety of reasons, including a decline in the quality of information submitted by employers. We found that local office managers focussed mainly on speed of payment. There are neither performance targets nor measures of accuracy for the processing of claims at the local level.

2.5 Employment assistance services are increasingly provided by non-governmental organizations, under contribution agreements with HRDC. The agreements we reviewed do not set out service performance expectations or targets. Nor do they require the non-governmental organizations to be accountable for the quality of the services they provide.

2.6 There are gaps in the information the Department provides to Parliament on its performance in meeting its national service commitments. We also found gaps in the information that would help to provide context for the service performance that it does report. For example, information on the timeliness of paying Employment Insurance claims cannot be assessed in relation to information on the accuracy of payments.

Background and other observations

2.7 Almost one in three Canadians is a client of HRDC. Each year the Department processes 60 million to 80 million program claims and applications, sends about 100 million letters and pays out over $50 billion in various benefits. Most programs and services are offered at the local level, through one of the federal government's largest service delivery networks. It comprises 320 Human Resource Centres of Canada, 5,000 self-service kiosks, 21 telephone centres and 10 mail centres. Almost 80 percent of HRDC's 21,000 employees work at the local level.

2.8 To make continuous improvements in the quality of services, managers need to seek more feedback from clients at the local level through such means as client satisfaction surveys and analysis of client complaints. There is no policy for handling complaints in either the Employment Insurance Program or the Income Security Programs. However, the latter has started to develop such a policy.

2.9 The Department does not have the cost information it needs to manage the trade-off between the cost of its main services and their quality. We believe it needs to give more attention to developing and implementing action plans at the local level for continuous improvement in service quality.

The Department's responses to our recommendations are included in this chapter. For the most part, the Department agrees with the recommendations and indicates the steps that it is taking or intends to take to address them.

Introduction

The Department's main services are delivered locally

2.10 Human Resources Development Canada (HRDC) is the largest of the federal government departments with a social mandate. Each year, it provides services to nearly 9 million Canadians in all regions of the country. It processes between 60 million and 80 million program claims and applications, sends about 100 million letters to Canadians and pays out over $50 billion in various benefits.

2.11 The Department delivers its main programs and services locally because they require that staff deal directly with clients. About 80 percent of its 21,000 employees work in local and regional offices.

2.12 Services delivered at local offices include income support and income supplement programs for the unemployed, senior citizens, persons with disabilities and persons who are enrolled in retraining programs or are trying to enter or re-enter the labour market. Other services to clients range from counselling to referring them for training and development. Local offices may also provide information on local labour markets, as well as other information.

Delivering high-quality services: A cornerstone of the Department's vision

2.13 In August 1995, the Minister of Human Resources Development announced plans to make services more accessible to Canadians. A new Service Delivery Network would provide the full range of HRDC services at client contact points, and would include offices, kiosks and electronic on-line services. The new network would rely on partnerships with other levels of government and non-governmental organizations to improve access to HRDC services for all clients — seniors in particular. The network and electronic services would give more clients access to HRDC services from their homes.

2.14 The Minister went on to say, "This new network represents a reduction in costs while actually giving Canadians greater access to our services. We are creating an affordable, highly flexible, and decentralized service delivery network to deliver the social supports Canadians need in today's society." Exhibit 2.1 illustrates the network.

2.15 Today, the network comprises 320 Human Resource Centres of Canada (HRCCs), about 5,000 self-service kiosks, 21 telephone centres and 10 mail service centres. It uses television and the Internet to distribute information. In addition, HRDC has signed labour market development agreements with nine provinces. Under those agreements, services related to labour market development are delivered by the provinces or co-managed with them. HRDC also has a large number of contribution agreements with non-governmental organizations (such as community service agencies) to deliver services to its clients.

2.16 In June 1995, Cabinet approved the Quality Service Initiative — a government-wide strategy aimed at improving the quality of service to Canadians. HRDC set out its approach to providing high-quality services in a 1996 document entitled "Quality Services Journey". The key elements of the approach were consultation with clients, employees, unions and partners; development and communication of service commitments; accountability; measurement of results; and continuous improvement.

Focus of the audit

2.17 The objectives of the audit were to determine the extent to which HRDC:

Each year, Human Resources Development Canada provides services to nearly 9 million Canadians and pays out over $50 billion in various benefits.

The new Service Delivery Network comprises 320 Human Resource Centres of Canada, about 5,000 self-service kiosks, 21 telephone centres and 10 mail service centres.

We examined how the Department manages the quality of locally delivered services.

- integrates service quality into its operations and identifies opportunities to continue improving;

- manages local service quality efficiently and effectively; and

- provides Parliament with relevant, understandable and balanced information on service quality.

2.18 We examined how the Department manages the quality of locally delivered services. We looked at the following major services of HRCCs:

- providing Canadians with information about Employment Insurance (EI) and Income Security services;

- delivering front-line services; and

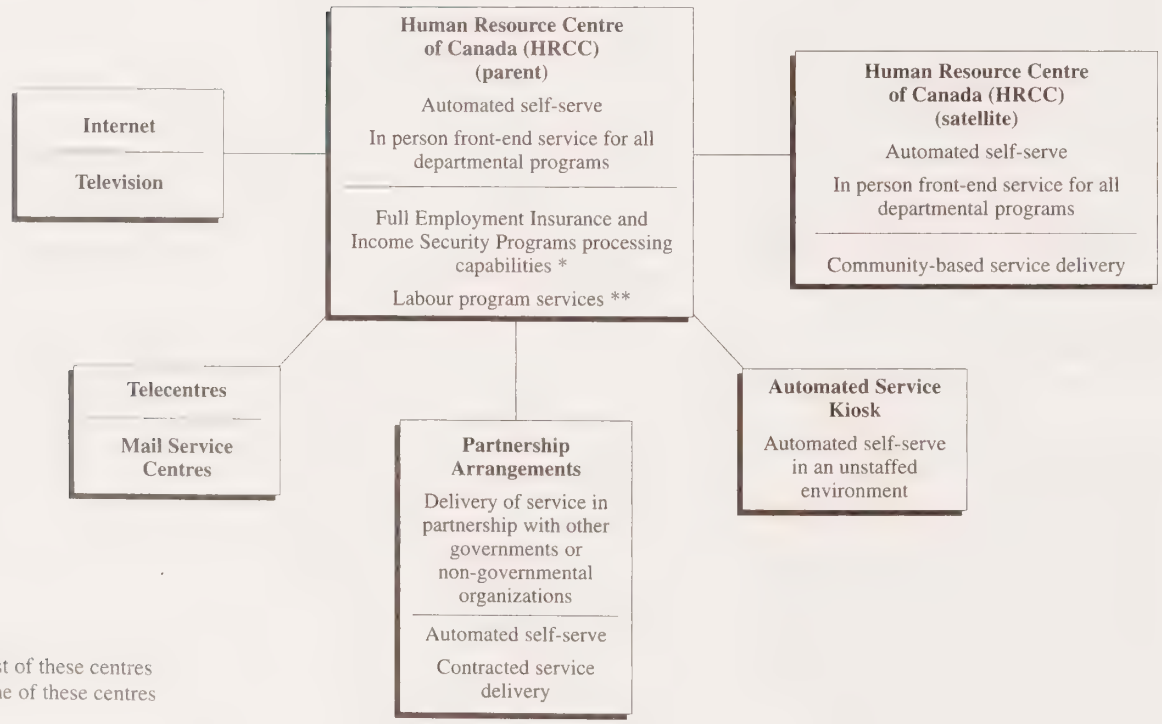
- processing EI claims and Income Security applications (excluding Canada Pension Plan disability benefits).

2.19 We also examined the employment assistance services that non-governmental organizations provide under contribution agreements with the Department. Exhibit 2.2 gives a brief description of each of the services we examined.

2.20 We put particular emphasis on services provided in person and by mail. Although telephone services are a key part of the Service Delivery Network, we did not include them in this audit because they were covered in our audit of service quality government-wide (see Chapter 1 of this Report, Service Quality). Further

Exhibit 2.1

Service Delivery Network



* In most of these centres
** In some of these centres

Source : Human Resources Development Canada

details are given at the end of this chapter in **About the Audit**.

Observations and Recommendations

Considerable Progress Toward a Focus on Service Quality

2.21 The Department has faced major challenges in recent years. Among other things, it implemented a new *Employment Insurance Act* in July 1996, began implementing the new Service Delivery Network in 1995 and embarked on its "quality services journey" in 1996. In addition, following the Program Review in 1994–95, it had to reduce its work force by 5,000 and its annual operational spending by $200 million. More recently, HRDC devoted considerable attention and resources to ensuring that its systems could cope with the Year 2000 computer problem.

2.22 The new Service Delivery Network was designed to provide services at the same (or even greater) quantity and quality, but with fewer resources. This required a major redesign of the local delivery structure. The Department consolidated service in 100 parent HRCCs that provide all services, including administrative and support functions. Another 220 satellite offices offer core services and report to the parent HRCCs. About 150 local offices closed when the new network began to operate.

2.23 The new Service Delivery Network also called for a major reorganization and change in culture. It flattened the organization and cut management layers. There is only one person now between each HRCC Director and the Deputy Minister. Directors of HRCCs have full autonomy to provide clients with the best possible service. Front-line staff have been trained and given authority to deal with a broad range of client needs at the first point of contact.

Front-line staff have been trained and given authority to deal with a broad range of client needs at the first point of contact.

2.24 Under the new network, the Department developed new models of service to Canadians. These included partnerships with other levels of government and with non-governmental organizations, and client self-service through computerized facilities and the Internet. Telephone services were upgraded. More than 5,000 kiosks (computer terminals) are located in

Exhibit 2.2

Description of Services We Covered

Services	Description
Information	Self-serve – general information on Human Resources Development Canada programs and services and the services provided by Human Resource Centres of Canada (HRCC).
Front-line services	Front-line services are the first point of contact for clients who come to an HRCC to obtain information or assistance in using the self-serve tools, to determine their eligibility for a program or service, or to resolve problems or changes in status in connection with current benefits.
Processing of claims and applications	Processing of Employment Insurance (EI) claims and applications for Canada Pension Plan benefits (excluding Disability) and Old Age Security benefits.
Employment assistance services	Employment support services provided by non-governmental organizations to members of a particular group in the community served by a Human Resource Centre of Canada.

Source: Human Resources Development Canada

The Department recognizes the need for a corporate quality framework to link service quality initiatives, monitor progress and plan for continuous improvement.

HRCCs and in partners' premises. Clients use kiosks to obtain information on job vacancies and the labour market. In addition, clients use the kiosks located in HRCCs to file Employment Insurance claims by computer instead of on paper. HRDC told us that in some regions, kiosks account for more than 70 percent of Employment Insurance claims.

2.25 Our government-wide audit of service quality (see Chapter 1) found that HRDC has improved its telephone services to Canadians since 1996. Recently introduced telephone technology now allows Employment Insurance claimants to use the keypads of their touch-tone telephones to report their availability for work, and any earnings while on claim. In the past, claimants had to mail this information to the Department.

2.26 HRDC has established a results-based accountability framework and defined its approach to service quality. To demonstrate its commitment to service quality and to provide leadership, it set up a team of champions (four assistant deputy ministers) and related committees. It also created regional and local committees to improve communication throughout the Department and to share best practices for service quality.

2.27 The Department has recognized the need for a corporate quality framework to link its various service quality initiatives, to monitor progress and to plan for continuous improvement. We agree that such a framework would help it identify areas it needs to improve as a priority and integrate service quality initiatives into its operations.

2.28 HRDC has adopted the National Quality Institute (NQI) quality framework as a pilot for this purpose. It has carried out the NQI quality fitness test in three regions and one branch at headquarters, although the reports were not yet available when we completed our audit.

2.29 The Department recognizes that the focal point for enhancing service quality must be the local level. All the HRCCs we visited were working on a variety of national, regional and local initiatives to improve service quality. Examples include creating local quality



Clients using kiosks in a Human Resource Centre of Canada (see paragraph 2.24).

committees, creating new positions such as service delivery representatives, upgrading employees' skills, and increasing the availability and use of new technologies. One of the parent HRCCs we visited was planning to obtain ISO 9002 certification of its approach to service quality, and we were told that five HRCCs have received ISO 9001 certification.

2.30 However, improving service is a continuing journey, and we identified several areas where improvements are needed.

The Department Has Defined National Service Commitments

Need to better communicate service commitments

2.31 The Department has defined national service commitments in four main areas: a statement of principles for the quality of treatment and the quality of information that clients can expect; waiting time in offices; speed of payment of Employment Benefits and Measures, Employment Insurance and Income Security benefits; and commitments specific to the Labour component of HRDC (see Exhibit 2.3).

2.32 HRDC's preferred approach is to ensure that every office posts the national service commitments. Telling clients about its commitments to service quality supports its primary objective — to provide high-quality services. It is also an important part of its Quality Services Journey.

2.33 We found that 12 of the 13 HRCCs we visited displayed some or all of the national service commitments in the client waiting area. The other HRCC delivers services to which the national commitments apply, but it had not posted those commitments. Instead, it had posted its own local commitments, involving mostly aspects of service quality that differed from those covered by the national commitments. For example, none of the local service commitments referred to speed of payment, waiting time for counter services or complete and accurate information on entitlements and obligations.

2.34 Among the HRCCs that had posted components of the national service commitments, we found that:

- two did not display "within 35 days" as the target for speed of payment in Income Security Programs;
- three did not indicate that clients are entitled to complete and accurate

Improving service is a continuing journey; we identified several areas where improvements are needed.

Our Service Commitment to You

- You are entitled to courteous and considerate treatment and complete and accurate information about your entitlements and obligations.
- We aim to keep the waiting time to meet a client service officer to a minimum. Waiting times will be posted in our offices.
- You are entitled, if you qualify, to receive your first payment within:
  - 28 days for Employment Benefits and Measures;
  - 28 days for Employment Insurance benefits; and
  - 35 days for Old Age Security or Canada Pension Plan benefits.
- We will provide 24-hour emergency response service for fatal accidents and refusals to work in the federal jurisdiction.
- We will respond to complaints of unjust dismissal under federal jurisdiction within two working days

Exhibit 2.3

"Our Service Commitment to You"

Source: Human Resources Development Canada

information about their entitlements and obligations; and

- seven did not indicate how long clients could expect to wait to meet a service delivery representative.

2.35 Finally, although the brochures, Employment Insurance claim forms and Income Security applications that are available to clients at HRCCs describe the nature of the services, they do not clearly identify all the pertinent elements of the national service commitments. In particular, they provide little or no information on delivery targets.

2.36 Human Resources Development Canada should ensure that, where applicable, Human Resource Centres of Canada clearly communicate all national service commitments to clients.

Department's response: *The policy is that all national service commitments including client wait time must be posted, where applicable, in Human Resource Centres of Canada. The policy will be reaffirmed.*

Some Human Resource Centres of Canada have expanded on national service commitments

2.37 The Department's service philosophy allows the regions and HRCCs to establish service commitments that respond to the specific needs and priorities of their clients. Most of the HRCCs we visited had taken the initiative to develop and post their own regional or local service commitments. In no case did these local commitments set less-demanding targets than those established at the national level. Rather, they went beyond the national commitments. For example:

- one HRCC displayed a commitment that Employment Insurance appeals would be heard by the Board of Referees in less than 30 days;
- three HRCCs said they would respond to inquiries in less than 48 hours; and
- four HRCCs were committed to providing clients with information to help them better understand available programs and services.

The national service commitments do not include all key elements

2.38 The government has identified a set of six key elements for improving service quality and has asked all departments and agencies to put them in place and communicate them to clients at points of service. These elements include a description of the service, pledges of the quality of service that clients can expect to receive, delivery targets, cost information, the availability of complaint and redress mechanisms, and performance toward delivery targets (see Exhibit 2.4).

2.39 In the 13 HRCCs we visited, we found that the national, regional or local service commitments communicated to clients were incomplete (see Exhibit 2.5). For example:

- none of the posted service commitments included all key elements;
- in only two HRCCs was performance toward delivery targets posted at service points; and
- none of the HRCCs communicated the cost of services or provided information about available complaint and redress mechanisms.

2.40 Delivery targets are one of the most important elements of a commitment to high-quality service. They are targets for levels of performance in the main aspects of service, including accessibility, speed, reliability or accuracy, courtesy of staff and other measurable aspects of the service environment (for example, comfort in waiting areas).

2.41 We found that the targets the HRCCs communicated are primarily for

The government has identified a set of six key elements for improving service quality and has asked all departments and agencies to communicate them to clients at points of service.

We found that national, regional or local service commitments communicated to clients did not cover all key elements.

waiting times for counter service and speed of payment of Employment Insurance and Income Security benefits. Targets for accuracy or reliability of services are not communicated to clients at points of service.

2.42 Clients can obtain service in person at an HRCC, by mail or by telephone. The service commitments posted in the HRCCs we visited did not include delivery targets for telephone services. When a service delivery representative in the HRCC is unable to answer a client's question, he or she asks the client to call a telephone centre using the telephone (1–800 line) provided at the HRCC. Because the posted service commitments do not indicate the service clients can expect from telephone centres, they are not able to compare the quality of the service with reasonable expectations (for more information on HRDC's telephone services, see Chapter 1, Service Quality).

2.43 The Department should develop and ensure that Human Resource Centres of Canada clearly communicate to clients:

- **delivery targets for the main aspects of quality in the various modes of service as well as performance toward those targets; and**

- **information on the cost of services and on complaint and redress mechanisms available to clients.**

Department's response: *Objectives are included in the statement of each of the program-specific national service commitments (see Exhibit 2.3). The Department will report results on national service commitments in the Departmental Performance Report.*

Because the period during which the service commitments were being introduced was characterized by a number of far-reaching changes, innovations and adjustments, the number of national service commitments was limited. The resulting service commitments focus mainly on direct interaction with clients. However, the importance of cost-of-service information is recognized and a draft methodology is being studied. The Department's approach to service quality recognizes the importance of informing clients of available complaint

Exhibit 2.4

Key Elements for Improving Service Quality

Descriptions	Descriptions of the services the government intends to provide and, where applicable, the benefits clients are entitled to receive.
Pledges or principles	Pledges or statements describing the quality of service clients should expect to receive, focussing on such elements as openness, fairness and courtesy.
Delivery targets	Delivery targets for key aspects of service, such as timeliness, access and accuracy.
Costs	The cost of delivering a service, which shows clients how much a service costs.
Complaint and redress mechanisms	Complaint and redress mechanisms, which give clients the means to obtain satisfaction when they feel the government has not met the stated service commitments.
Performance in relation to delivery targets	Performance toward delivery targets, measured and communicated.

Source: Service Standards: A Guide to the Initiative, Treasury Board of Canada, 1995

and redress mechanisms, and this will be followed up.

Measuring and Reporting of Performance Need Improvement

Gaps in measuring performance against national service commitments

Few local offices we examined had developed measures of client satisfaction with services.

2.44 Performance measurement makes it possible to determine whether the provision of services meets national service commitments, including the specific targets for service performance. Thus, we expected performance measurement to be a key element in the Department's efforts to continuously improve service quality and account for results.

2.45 We found that the main aspects of quality that HRCCs measured are the speed of processing claims and payments and the waiting time for counter services. The Department has no measures of the speed of payment of Old Age Security or Canada Pension Plan benefits. As a result, the timeliness of these payments cannot be assessed against the targets set out in the national service commitments.

2.46 We found that few HRCCs had developed measures of client satisfaction with services. Exhibit 2.6 shows that in Employment Insurance services, only four of the 13 HRCCs we visited had measured clients' satisfaction with staff courtesy, and none had measured clients' satisfaction with the information they received about entitlements and obligations.

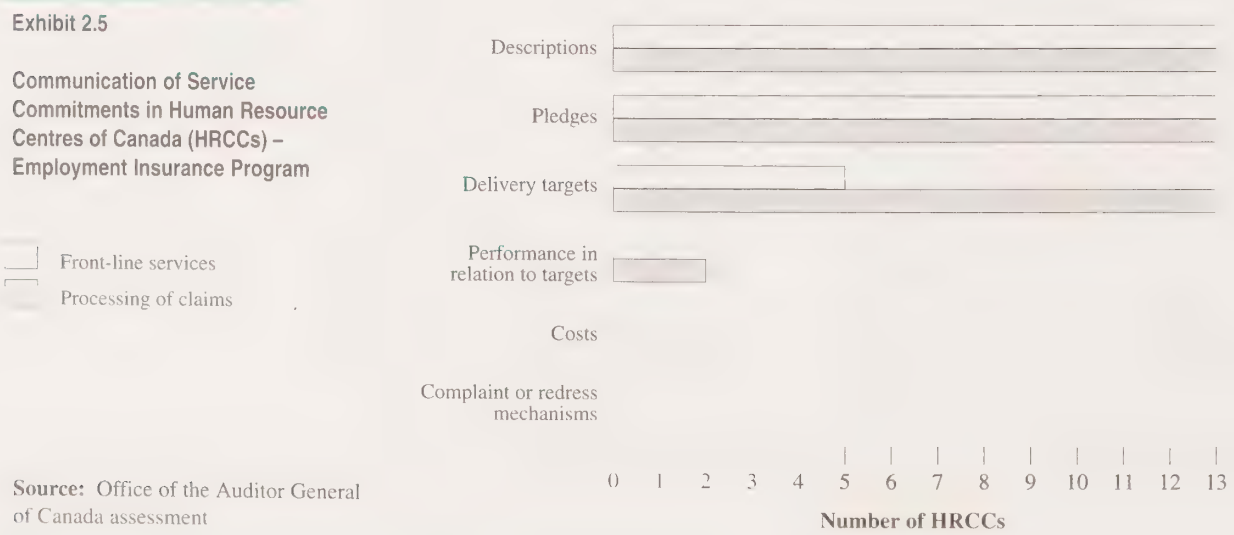
2.47 The Department should develop and implement systems to measure performance against all aspects of its national service commitments.

Department's response: *A client survey will be administered during 2000–2001 to determine the level of clients' satisfaction with the courtesy of treatment and the completeness and accuracy of information they receive. This survey should provide HRDC with a benchmark and will serve as a basis for developing a national improvement plan, taking into account priorities identified by clients. HRDC is also planning to implement a national system that will provide consistent information on wait time.*

For the Income Security Program portion of the payment process, the current measurement system reflects application-processing times. Enhancements are being made to improve client service information.

Exhibit 2.5

Communication of Service Commitments in Human Resource Centres of Canada (HRCCs) – Employment Insurance Program



Source: Office of the Auditor General of Canada assessment

Waiting time for counter services is not consistently measured or reported

2.48 Service delivery representatives provide an increasingly broad range of services. The number and complexity of tasks have increased as staff have been required to provide more integrated services that cover HRDC's main programs. The national service commitment is to minimize clients' waiting time and to post waiting times in local offices. For example, in the HRCCs we visited, the waiting times posted for Employment Insurance services ranged from 15 to 30 minutes.

2.49 We observed that 10 of the 13 HRCCs (see Exhibit 2.6) used computer systems to measure waiting times. These systems allowed the HRCCs to identify peak periods and manage client flow proactively. However, two of the 10 HRCCs that used computer systems were not using them to full capacity. One was not using the system during peak times, and the other was not measuring waiting times from the time when clients first entered the office.

2.50 The Department told us that only about a third of the 320 HRCCs use automated systems to measure waiting times. The vast majority of satellite offices, which provide counter services only, have no automated systems for this purpose.

2.51 The lack of consistent measurement makes it difficult for managers to account for their performance in meeting this national service commitment. We noted that most of the HRCC business plans we reviewed did not report actual waiting times for counter services.

2.52 The Department should ensure that managers of Human Resource Centres of Canada consistently measure and report waiting times for counter services, and account for their performance in relation to this national service commitment.

Department's response: *As mentioned in the response to the recommendation at paragraph 2.47, HRDC is planning to implement a national system that will provide consistent information on wait time.*

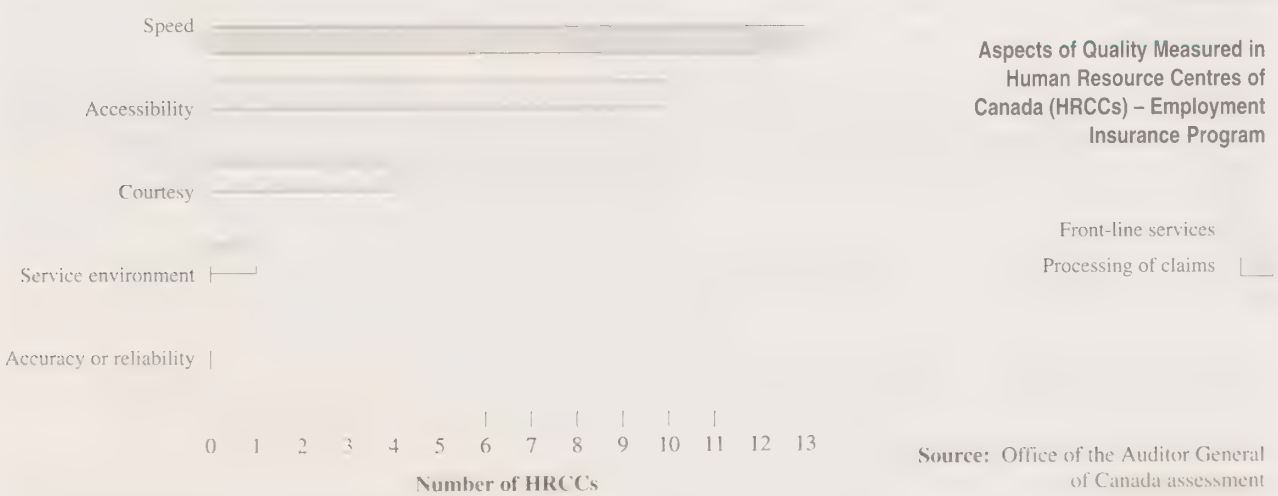
Improvements needed in measuring speed of payment

2.53 For Employment Insurance claimants as well as Income Security beneficiaries, speed of payment is an important element of service quality, as reflected in the national service

Inconsistent measurement of waiting time for counter services makes it difficult for local office managers to account for their performance in meeting this commitment.

Exhibit 2.6

Aspects of Quality Measured in Human Resource Centres of Canada (HRCCs) – Employment Insurance Program



Source: Office of the Auditor General of Canada assessment

commitments. HRDC acknowledges in its 1999 Performance Report, "Our top priority in the Employment Insurance program is to provide the highest speed of benefit payments possible."

Over the past three years, the proportion of local offices exceeding the target for timely payment of Employment Insurance benefits rose from 57 percent to 99 percent.

2.54 Employment Insurance Program. Our visits to the 13 HRCCs confirmed that speed of payment is measured and monitored weekly. Over the past three years, the proportion of HRCCs exceeding the performance target (payment within 28 days of registering a claim) rose from 57 percent to 99 percent (see Exhibit 2.7). Over the same period, the proportion of HRCCs exceeding the goal for productivity also increased.

2.55 The speed-of-payment indicator measures the period from the date a claim is registered in the computer system to the date of the first payment to the claimant. The current policy is to register claims by the end of the working day following the day of receipt.

2.56 However, a recent audit performed by HRDC's Internal Audit Bureau noted delays in registering claims that had the effect of "artificially" improving performance, with no gain in speed of payment from the client's perspective. Our own audit of a sample of 56 claims — chosen at random from the claims reviewed by the Comprehensive Tracking System — showed delays in registering about one third of the claims, with the average delay about three days.

2.57 We observed that on a pilot basis, one region was calculating speed of payment from the start of the benefit period — that is, from the qualifying date. The results show that the speed of payment decreases when measured from the qualifying date instead of the registration date.

2.58 This new measurement of speed of payment could lead to improved client service because to meet the target, managers would have to be more proactive in processing claims. They would have to do more, for example, to inform clients of their obligation to submit required documents in a timely manner. Furthermore, delays in registering claims would have no impact on speed of payment if speed were measured from the qualifying date and not the registration date. However, the measured performance of HRCCs may suffer, as they have little control over when a client files a claim.

2.59 The Department should ensure that the speed of payment of

Exhibit 2.7

Exceeding Performance Targets at Human Resource Centres of Canada – Employment Insurance Program

Performance Target	1996–1997	1997–1998	1998–1999
	(percentage of HRCCs that exceeded target)		
Speed of payment			
90% of benefits paid within 28 days after the initial or renewal claim is registered	57	86	99
Productivity			
1,200 initial and renewal claims settled per full-time equivalent, productive time [1]	53	58	70

[1] The productivity target was 1,125 in 1996–1997.

Source: Office of the Auditor General of Canada calculations using HRDC data

Employment Insurance claims is measured in a consistent way.

Department's response: *Our operating policy is to register a claim within 24 hours of the individual's application for benefits. We are considering an approach to bringing greater accuracy to the calculation of speed of payment by measuring the time between the commencement of the claim and the date the first warrant is issued. Our intention is to begin calculating speed of payment in this manner as of the 2000–01 fiscal year and to work toward further refinement prior to reporting on this basis in 2001–02.*

2.60 **Income Security Programs.** The national service commitment for Income Security Programs is to pay all recipients within 35 days of the date when they become eligible. That target applies to all types of benefits. However, at the time we completed our audit, the Department did not have a measurement system to determine whether or not this national service commitment was being met. Local service managers told us that they had no information about performance toward this target.

2.61 The Department has started to develop a measurement system designed to produce reliable information on the timeliness of Income Security benefit payments. This will enable managers to give an account of their performance in this important aspect of service to clients.

2.62 In addition to measuring performance against the national service commitments, other key service-related performance measures need to be implemented or improved.

Service performance measures and targets for Income Security Programs need to be strengthened

2.63 Most Income Security clients mail their applications and account maintenance requests to one of the 12 Income Security Programs (ISP) processing centres. Some parent HRCCs also process Income Security applications and account maintenance requests for clients who go there in person.

2.64 Account maintenance can represent up to 75 percent of the workload at ISP processing centres. In the quarter ending 30 June 1999, for example, there were approximately 1.2 million account maintenance transactions. These are the updating of beneficiaries' information, including the recording of deaths and changes in eligibility status. Failure to keep an account up-to-date can lead to inconvenience to the beneficiary as a result of inappropriate payments.

2.65 We found that the Department has no adequate system to determine whether accounts have been updated in a timely fashion. It has not established measures of performance or a target for speed of service in account maintenance.

2.66 In ISP processing, the key performance measure is the time it takes to process an application from its receipt until a decision to pay or deny a benefit is entered into the system. With the exception of disability claims, the target is to process applications within 16 days (the target for initial disability claims is 62 days). The Department recently implemented a computer system to calculate the speed of service in processing applications. In the quarter ending 30 June 1999, most regions processed only 30 percent of their applications within the 16-day target. The national average in that quarter was around 27 days.

2.67 The managers of the three ISP processing centres we visited challenged the validity of the 16-day target, as clients can apply up to one year before they become eligible for benefits, particularly Old Age Security. They pointed out that even if it takes more than 16 days to process an application, the client is unlikely to be penalized because the

The Department has started to develop a system to produce reliable information on the timeliness of Income Security benefit payments.

eligibility date is usually several months away. They believe what matters most to clients is that payment starts in the month when they become eligible.

2.68 We noted that, with the exception of disability benefits, the 16-day target is the same for all types of benefits, such as death benefits and Old Age Security benefits. The needs and priorities of clients were not taken into account in establishing this target.

Employment Insurance claimants are entitled to be paid the right amount at the right time, all the time.

2.69 In the Income Security Programs, the Department should consult clients to establish service delivery targets. It should implement performance measures for account maintenance transactions to ensure that accounts are updated in a timely fashion.

Department's response: *As part of an information technology renewal initiative, a project is under way to develop automated account maintenance performance measures. Measures and targets will be established in conjunction with this project. Plans are in place for client consultations throughout 2000.*

The timeliness of Employment Insurance payments has improved while accuracy has declined

2.70 Increased errors in payment. Despite the challenges of implementing the new Service Delivery Network and the new *Employment Insurance Act* during a period when its work force was being reduced, the Department significantly improved the timeliness of Employment Insurance benefit payments. Over the past three years, the proportion of claims paid in less than 28 days increased from 90 percent to 95.5 percent (see Exhibit 2.8).

2.71 Claimants are entitled to be paid the right amount at the right time — all the time. But how accurate is the Department in paying benefits? Its Comprehensive Tracking System is used to assess the processing of Employment Insurance claims and to estimate, by means of statistical inference from a sample, the most probable error in benefit payments nationally. However, given the small number of claims selected for the sample, the results are not statistically representative when analyzed at regional or local levels.

2.72 Exhibit 2.8 shows that at the national level, the estimated accuracy of

Exhibit 2.8

Estimated Accuracy Rates and Speed of Payment – Employment Insurance Program



Source: Human Resources Development Canada and Employment Insurance Account financial statements

benefit payments fell from about 96 percent in 1995 to about 94 percent in 1998–99. An inaccurate payment is either an overpayment or an underpayment. The estimated rate of underpayments has risen steadily since 1996, when the new *Employment Insurance Act* was implemented. Estimated total underpayments increased from $125 million in 1996 to $211 million in 1998–99 — more than 60 percent. Overpayments also increased over the same period, from $334 million to $445 million.

2.73 Investigation and control activities at HRCCs are carried out to protect the integrity of the Employment Insurance Program. These activities are aimed at preventing, combating and detecting fraud and abuse. Their focus is thus on overpayments and they are not intended to detect or record underpayments.

2.74 **Incorrect information from employers.** Incorrect payments can be attributed in part to employers, claimants and HRDC. Exhibit 2.9 shows an increase in the proportion of incorrect payments that result from incorrect information submitted by employers on Records of Employment. Incorrect information from employers accounted for 10 percent of total errors in 1995; this had risen to 33 percent in 1998–99.

2.75 The Record of Employment is the most important document in the Employment Insurance system because it contains information on insurable earnings, insurable hours and the reasons why the employee left his or her job. This information is needed to determine eligibility, benefit rates and the benefit period.

2.76 During our audit, the Department conducted a special study to identify the main types of error that employers make in preparing Records of Employment. The study showed that the two most frequent errors were made in determining insurable earnings and insurable hours. However, as the study looked at only one year (1998–99), it was not possible to determine whether the frequency of those two types of error has increased or decreased in recent years.

2.77 The Department has taken several steps to inform employers about the new Record of Employment system. It has held information sessions for employers; it has set up a 1–800 line where employers can obtain information; and it has reviewed the employer's guide to Records of Employment. Despite these efforts, the amount of inaccurate

Estimated Employment Insurance underpayments and overpayments have risen since 1996.

Incorrect information from employers accounted for 33 percent of incorrect Employment Insurance payments in 1998–99, up from 10 percent in 1995.

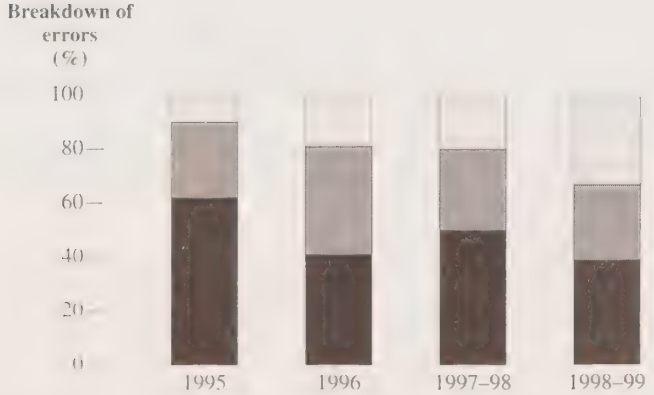


Exhibit 2.9

Causes of Incorrect Payments – Employment Insurance Program

Errors attributable to employers
Errors attributable to claimants
Errors attributable to HRDC

Source: Human Resources Development Canada (HRDC)

information submitted by employers has increased.

Lack of local performance measures and targets for accuracy of Employment Insurance payments

2.78 Although processing Employment Insurance claims is a major activity of HRCCs, the Department does not have a system for measuring its accuracy at the local level and local managers do not report on this important aspect of their work. None of the 13 HRCCs we visited had measures of accuracy, and none of the business plans we reviewed included information on the accuracy of Employment Insurance payments.

2.79 In our view, establishing measures of accuracy in processing claims at the local level would be a necessary first step in developing appropriate performance targets. Having measures and targets would help ensure that accuracy of payment is given the same attention as speed of processing and the timeliness of payment of Employment Insurance benefits.

Establishing performance targets for the accuracy of Employment Insurance payments would help clarify the delicate balance between speed of payment and accuracy.

2.80 In the course of our audit, we noted that one regional office had asked each HRCC in the region to review the quality of a representative sample of claim files to determine the frequency and causes of errors in processing. This initiative was being implemented in the region during our audit. In our view, it needs to be extended to all HRCCs that process claims.

2.81 The Department has established neither national nor local performance targets for the accuracy of payments under the Employment Insurance Program. We noted that the Social Security Administration (the United States' equivalent of HRDC) publishes delivery targets for not only speed of payment but also accuracy. We believe that establishing performance targets for the accuracy of benefit payments and reporting the results to Parliament would help clarify the delicate balance that has to be struck between speed of payment and accuracy.

2.82 The Department should develop local measures of accuracy of Employment Insurance payments and communicate the results to Parliament in its annual Performance Report.

Department's response: *The accuracy of claims processing is an important element of quality management at the local level. The Employment Insurance Quality Management policy requires regular monitoring for purposes of staff coaching and training as means to maintain and improve the quality performance. The program relies on national sampling to provide statistically valid reports on the accuracy of benefit payments, to indicate trends in various error categories and to guide corrective action at all points of service. Recent action has included:*

- *activities aimed at increasing employer accuracy in completing some 8 million records of employment annually;*
- *activities aimed at reducing mis-reporting of earnings by active claimants in some 20 million biweekly reports submitted each year; and*
- *increased monitoring of quality and staff training at all points of service.*

The Department will include in its yearly Performance Report to Parliament the results from the national sample on accuracy of benefit payments.

Quality of Service by Non-Governmental Organizations

No accountability framework for quality of employment assistance services

2.83 Delivering services in partnership with other governments and non-governmental organizations is an important part of HRDC's service delivery network (see Exhibit 2.1). In three of the

five regions we visited, we examined arrangements for dealing with service quality when employment assistance services are provided by non-governmental organizations (sponsors) under contribution agreements with HRDC. We did not examine services provided by provincial governments under labour market development agreements.

2.84 Employment assistance services cover a whole range — from the distribution of "self-serve" labour market information to complete case management services, including access to employment benefits administered by HRDC or another agency. Employment assistance services represented spending of almost $238 million in 1998–99, up from $96 million in 1996–97. These expenditures are funded under Part II of the *Employment Insurance Act* as part of Employment Benefits and Support Measures.

2.85 During our visits to HRCCs, we reviewed 42 contribution agreements to determine how they addressed service quality. Most of these agreements were for a one-year period and the contributions ranged from $30,000 to about $1.5 million, depending on the nature of the services. The agreements provided for non-governmental organizations to conduct and complete the work under the agreements diligently and in a professional way, using qualified staff. In addition to setting out the basic terms and conditions, one agreement provided that the Department would monitor activities regularly to clarify performance expectations, and would pay special attention to best practices in looking at the services provided. While such clauses do not deal specifically with service quality, they do not exclude it.

2.86 With few exceptions, we did not find commitments by sponsors that could be directly linked to quality of service. On the initiative of local HRDC staff, some agreements specified conditions for clients' access to services; for example, the hours during which the service will be provided. Another referred in the objective to the delivery of high-quality service in the shortest possible time, but did not set targets to indicate what "high-quality service" meant.

2.87 Overall, sponsors are committed to the Department under their agreements to ensure that the services provided will be effective. But the agreements do not require a similar commitment to clients for service quality. Generally, the agreements do not require that sponsors provide courteous, accessible, timely or reliable services, or measure performance and costs and inform clients (and the Department) of the results.

2.88 Some of the HRCCs we visited had made special efforts to give clients information about the services provided by non-governmental organizations. They did this by means of brochures, promotional items in local newspapers or information sessions for clients who had still not found a job 12 weeks after becoming unemployed.

2.89 In the HRCCs we visited, managers did not receive reports from sponsors that provided information on service performance. Therefore, apart from the clauses in the contribution agreements already noted, there is no framework for managing the quality of HRDC services provided on its behalf by non-governmental organizations or for requiring accountability for service performance.

There is no framework for managing the quality of services provided on the Department's behalf by non-governmental organizations.

2.90 The Department should ensure that agreements with non-governmental organizations to provide employment assistance services on its behalf set out expectations for service quality and require accountability for service performance.

Department's response: *HRDC supports the recommendation, will set out performance targets or expectations and*

will require accountability for quality of service provided.

Other Improvements Needed to Better Integrate Quality Into Local Operations

More feedback from clients at the local level would help in improving services

2.91 Consulting clients and measuring their satisfaction is a way to understand what they think of the services they receive and the way those services are delivered. Feedback from clients can also help identify the aspects of service that are important to them. This kind of information makes it possible to improve desired services and to scale back services or aspects of services that clients consider to be less important. It also helps in addressing new client needs and targeting priority areas for improvement.

Clients are not adequately informed at service points how to lodge complaints about service quality or what kind of redress is available.

2.92 In 1997 and 1998 HRDC conducted national surveys of client satisfaction with the services obtained in person at HRCCs. However, there are aspects of client satisfaction that are better measured locally to provide a basis for specific actions to improve service. For example, access, courtesy, and the environment in which services are delivered are all aspects of quality on which local feedback is particularly useful.

2.93 In the past, the Department used a computer-based system to gather comments from clients. We reviewed one HRCC report generated in early 1998 that contained some revealing comments. For example: "Service was polite and friendly but it took too long just to reach the front desk for an inquiry." "Waiting in line by picking a number sometimes takes one hour." "The office is located in an inconvenient part (of town) as parking is expensive and space is limited." This system was abandoned in 1998–99.

2.94 We found that 4 of the 13 HRCCs we visited had consulted clients and used the results to help improve services. One HRCC used client comments and suggestion boxes for this purpose; the three others surveyed their clients. Other HRCC managers told us that they did not have the tools and resources to consult clients. None of the three ISP processing centres had obtained feedback from the clients they serve through the mail.

2.95 The Department should develop and implement tools that managers can use to obtain feedback from clients on the quality of the services offered at the local level.

Department's response: *The Department has developed tools to help managers choose research methodologies in gathering the clients' perspectives on service delivery. It has placed these tools on the departmental Intranet.*

More attention needed to complaint and redress mechanisms

2.96 Complaint and redress mechanisms are important elements of high-quality service. They allow clients to register their complaints about service quality and to obtain redress when appropriate. Moreover, information from complaints constitutes valuable feedback from clients that can be analyzed and used to identify opportunities for improving service. However, managers need to communicate clearly to clients how they can make complaints about service quality and how their complaints will be handled.

2.97 We found that clients were not adequately informed at service points on how to file a complaint about service quality, where to send complaints, or what kind of redress is available. The national and local service commitments displayed in the HRCCs we visited did not mention these matters. Nor did the Department's information brochures that were available to clients in local offices.

2.98 In all the HRCCs we visited, managers were unable to provide us with

information on the nature or frequency of complaints or on how complaints were resolved. We were unable to determine whether complaints were being handled in a timely and appropriate manner. Further, because information on the nature and extent of complaints is not available, managers cannot analyze complaints to seek opportunities for improving service quality.

2.99 The Employment Insurance Program has no policy on handling complaints. During the audit, the Income Security Programs Branch started to develop such a policy.

2.100 The Department should:

- **develop and implement a policy on the management of complaints;**
- **communicate to clients at all points of service the availability of complaint and redress mechanisms; and**
- **compile, analyze and use information from complaints to improve the quality of service to clients.**

Department's response: *HRDC recognizes the importance of obtaining feedback from clients. The approach to quality of service that has been adopted and communicated affirms the importance of seeking client feedback, informing clients of available complaint and redress mechanisms, and using client feedback to improve service.*

The Department does not have adequate information on the cost of services

2.101 Reliable information on the total cost of each service can be used to measure the efficiency of operations and to allocate resources among services. It can also be used to manage the inevitable trade-off that exists between service quality and cost and to reach an appropriate balance.

2.102 The Department's vision of quality is to provide the highest-quality services. However, the vision makes no explicit mention of the cost of services. We found that the HRCCs and processing centres we visited had limited information about the total unit cost of each major client service. Furthermore, no such information is compiled or communicated in the quarterly performance report to senior management.

The local offices and processing centres we visited had limited information about the total unit cost of each major client service.

2.103 The Department's Quality Services Journey called for developing, by 31 March 1997, a method to determine the cost of the main services. A proposal for the costing of outputs has been drafted and is under consideration. We noted that the Employment Insurance Program is developing a unit costing methodology for costs associated with processing Employment Insurance claims. Income Security Programs is reviewing its activity structure.

2.104 The Department should identify the link between the quality and the cost of services in its vision of service quality and implement a method for costing its main services.

Department's response: *HRDC recognizes the importance of costing information, and a draft methodology for costing services is being studied. In time, costing data on major services will be available to management.*

Action plans are needed for continuous improvement in service quality

2.105 In 1994 the Department issued a policy on quality management in the Employment Insurance Program. The core objective of the policy is to promote error-free performance in processing EI claims. In addition, the policy requires each HRCC to develop and implement an annual quality management plan and to report on activities associated with that plan. We found that only two of the 13 HRCCs we visited had developed specific quality management plans.

Only two of the 13 local offices we visited had developed specific quality management plans.

2.106 Inaccurate or unreliable service is not only unsatisfactory to clients but also increases the cost of service, because it

creates extra work for HRDC staff who have to make corrections. For example, errors in calculating Employment Insurance benefits can increase the number of enquiries from claimants and the number of complaints and appeals to the Board of Referees. In our view, a quality management plan would guide action to reduce the number of errors, and thereby help provide better service to clients while reducing costs.

2.107 However, we believe that quality management plans need to address not only EI claims-processing activities but all client services provided by HRCCs, including front-line services, complaints management and appeals processing. By setting out objectives and activities, timelines, responsibilities and budgets, such plans would provide a basis for continuous service improvement and for assessing results.

2.108 The Department should ensure that managers of Human Resource Centres of Canada develop and implement action plans for continuous improvement of service quality.

Department's response: *The National Quality Institute's "Framework for Effective Public Service Organizations" has been adopted on a pilot basis in HRDC and includes a detailed planning process for continuous improvement. The experience and recommendations of the pilot sites, including their views on the Framework as a means for planning continuous improvement, will be sought in deciding on the further implementation of the Framework in HRDC.*

Informing Parliament About Service Performance

2.109 In 1997, the Standing Committee on Public Accounts recommended that departments and agencies report on their service performance in Departmental Performance Reports. We reviewed HRDC's 1999 Performance Report as well as its Report on Plans and Priorities. We expected that HRDC would be using these reports to inform Parliament, at a minimum, of its national service commitments and its performance in relation to them.

Gaps in information on performance in meeting national service commitments

2.110 Although both the Performance Report and the Report on Plans and Priorities set out the national service commitments (see Exhibit 2.3), we found gaps in the information the Department has provided on its performance in meeting them. More specifically, its 1999 Performance Report contains no information on the waiting times for clients at HRCCs or on performance toward the target of payment "within 35 days" for Old Age Security or Canada Pension Plan benefits. We were told that the Department's performance measurement systems are currently unable to provide reliable information on these aspects of performance.

2.111 We also noted that the 1999 Performance Report contains no information for the Employment Insurance Program on client satisfaction with the courtesy of staff or with the information received about entitlements and obligations. However, for Income Security Programs the Report does include some information about client satisfaction with the services and information they received.

2.112 We noted that the 1998 performance report of the U.S. Social Security Administration provides more information on client satisfaction with service. It gives the rate of client satisfaction with not only the courtesy of staff and the clarity of the information obtained but also several aspects of the service environment. These include the location of the office, hours of operation, office privacy and comfort of the waiting room.

2.113 The Department told us that in 1999–2000 it plans again to measure client satisfaction with service in Income Security Programs. We expect that this will enable it to provide more information in its Performance Report for 2000.

2.114 We noted that the Performance Report does not provide any historical information that could be used to identify trends in performance. Moreover, the report provides little information that would help provide the context of service performance. For example, although performance in the timely payment of Employment Insurance benefits is reported, no information is provided on the accuracy of the payments.

2.115 In its annual Performance Report, the Department should clearly communicate to Parliament its performance in meeting the national service commitments.

Department's response: *Performance in meeting the national service commitments will be included in the Departmental Performance Report.*

Income Security Programs is re-evaluating the 35-day target as part of the performance measure revisions currently under way. In addition, focus groups will be used in 2000 to determine directly from clients what they expect of us. The results of this research will help Income Security Programs develop realistic service targets to meet client expectations. These will provide benchmarks against which we can monitor and report actual performance.

Conclusion

2.116 Integrating service quality into operations. The Department has made considerable progress in integrating service quality into its operations at the local level. It has defined its approach to delivering high-quality services, implemented a new service delivery network and set out national service commitments to be communicated to clients at all points of service. The local offices we visited had completed or were undertaking a variety of initiatives to deliver better service to clients. However, we concluded that improvements in several areas would further integrate service quality into local operations.

2.117 The Department needs to ensure that the national service commitments are communicated more consistently to clients at points of service, along with other key information such as performance toward delivery targets, the cost of services and the availability of complaint and redress mechanisms. Managers of local offices need to obtain more feedback from their clients and analyze it to identify opportunities for improving service quality. Finally, more emphasis on developing and implementing action plans at the local level would help focus attention on continuous improvement.

The Department does not have measures of performance toward all of its national service commitments.

2.118 Managing service quality efficiently and effectively. At both the national and the local levels, the Department has not measured service performance for all of its national service commitments. Where service performance is being measured, we found some weaknesses — for example, in measuring waiting time for counter services and the speed of processing and payment. Nor does the Department measure other important aspects of service quality at the local level — such as the quality of the service environment and the accuracy of Employment Insurance payments.

Its Performance Report does not give Parliament a clear understanding of the Department's performance in meeting the national service commitments.

2.119 Agreements with non-governmental organizations to provide employment assistance services on behalf of the Department do not set out the quality of service expected. Nor do they require the non-governmental organizations to be accountable for service performance.

2.120 We concluded that these gaps in the availability of performance information about service and cost make it impossible to determine whether the

quality of service at the local level is being managed efficiently and effectively.

2.121 Reporting results to Parliament. The Department sets out its national service commitments in its annual reports to Parliament on plans and priorities and on departmental performance.

2.122 However, we concluded that the results it reports are not adequate to give Parliament a clear understanding of the Department's performance in meeting the service commitments. Nor does the Department report information (for example, the accuracy of Employment Insurance payments) that would help to put service results into context.

About the Audit

Objectives

The audit sought to determine the extent to which Human Resources Development Canada (HRDC):

- integrates service quality into its operations and identifies opportunities to continue improving;
- manages local service quality efficiently and effectively; and
- provides Parliament with relevant, understandable and balanced information about service quality.

Scope and Approach

The audit focussed on the management of the quality of services delivered locally. We reviewed the following services: provision of information to Canadians about Employment Insurance and Income Security services; front-line services and processing of Employment Insurance claims and Income Security applications (excluding Canada Pension Plan disability benefits); and employment assistance services provided by non-governmental organizations under contribution agreements.

We reviewed documents and interviewed HRDC staff about the quality of the services we examined. We carried out the audit in 13 parent Human Resource Centres of Canada (HRCCs) and three Income Security Programs processing centres in the Department's Newfoundland, Quebec, Ontario, Alberta and British Columbia regions.

We did not assess the location of HRCCs or self-service terminals; nor did we examine service issues related to privacy, security or compliance with the *Official Languages Act*.

The quantitative data reported in this chapter were obtained from the various sources identified in the text. Unless otherwise indicated, we examined the reasonableness of the information but did not verify it.

Criteria

- A framework for managing service quality that takes into account the needs and priorities of clients should be established and implemented to integrate service quality into day-to-day operations. Adequate quality management plans should be established and implemented in local offices.
- Descriptions of services, service pledges, delivery targets, the cost of services, and complaint and redress mechanisms should be clearly defined and communicated to clients, together with performance against targets.
- The quality and cost of services should be measured, analyzed, monitored and communicated to senior management in a timely fashion.
- Parliament should be provided with information on service quality that is relevant, understandable and balanced.

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Report of the Auditor General of Canada to the House of Commons – 2000

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Report of the Auditor General of Canada to the House of Commons

Chapter 3
Citizenship and Immigration Canada – The Economic Component of the Canadian Immigration Program

April 2000

Report of the

Auditor General of Canada

to the House of Commons

Chapter 3

Citizenship and Immigration Canada –
The Economic Component of the
Canadian Immigration Program

April 2000

This April 2000 Report comprises 9 chapters as well as a Foreword and Main Points. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

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Chapter 3

Citizenship and Immigration Canada

The Economic Component of the Canadian Immigration Program

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.

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Citizenship and Immigration Canada

The Economic Component of the Canadian Immigration Program

Main Points

3.1 We noted serious deficiencies in the management and delivery of the economic component of the Canadian Immigration Program, whose purpose is to recruit highly qualified individuals who can readily contribute to our economy and adapt to our society. These deficiencies seriously limit Canada's ability to maximize the economic and social benefits that immigration affords, and to protect the integrity of its Immigration Program.

3.2 We found that immigration offices abroad are overtasked. They have much difficulty coping with the volumes of work and responsibilities assigned to them. Immigration levels set by the government are not met, and applicants are waiting longer and longer for their applications to be finalized — sometimes more than three years.

3.3 We noted weaknesses that leave Citizenship and Immigration Canada open to criticism of the quality and consistency of its decisions in selecting immigrants. Visa officers need better selection criteria, better training and better tools to assess immigrant applications more effectively. In addition, the Department does not sufficiently monitor the quality of their decisions. We noted significant differences in approval rates among officers processing similar cases.

3.4 Our audit revealed significant weaknesses in the management of medical assessments of prospective immigrants. Since our last audit in 1990, the Department and Health Canada have been unable to take a position on whether changes to standards for medical examinations are required to determine if an applicant poses a danger to public health and safety, or could place excessive demand on health care systems or social services. The same routine tests have been required for the last 40 years and the departments have not decided whether applicants should be routinely tested for any infectious diseases other than syphilis and tuberculosis. We are also very concerned about the lack of rigour and consistency in the overall management of medical assessment activities, including the procedures for supervising the designated local physicians who perform medical examinations of prospective immigrants abroad.

3.5 There are serious constraints on establishing criminality and security admissibility of prospective immigrants. Visa officers have little information and support to ensure that applicants are not likely to engage in criminal activities or endanger the safety of Canadians. Some people are thus admitted to Canada without reasonable assurance that they have not committed crimes abroad, engaged in espionage, subversion or terrorism, or been associated with organized crime.

3.6 The Department is particularly vulnerable to fraud and abuse. It has no effective measures in place to discourage people from submitting fraudulent applications, and visa officers often resort to detection methods that are costly. In addition, we found inadequate control over revenues, visa forms and computer systems.

3.7 Employees responsible for processing immigrant applications in offices abroad are deeply concerned about the present state of affairs. They feel they are not only going against their own values but also making decisions that could carry risks that are too high and that could entail significant costs for Canadian society.

3.8 Overall, it is highly questionable whether the Department has the resources and the operational capacity it needs to carry out the tasks required to meet the annual immigration levels set by the government.

Background and other observations

3.9 Citizenship and Immigration Canada is responsible for, among other things, setting immigration policy, selecting immigrants, and evaluating visitors' applications abroad. It also protects Canadians' health and safety by intercepting individuals who are not entitled to enter or remain in Canada, and returning them to their country of origin.

3.10 In 1999, approximately 190,000 immigrants were admitted to Canada. There are four broad components in the Immigration Program: family, economic, refugee, and other. Our audit focussed on the economic component, which accounts for 56 percent of landed immigrants each year. This component is aimed at recruiting skilled workers and business immigrants.

3.11 Immigration services abroad are provided through a complex network of 81 offices in Canadian embassies, high commissions and consulates. About 210 Canadian officers and 980 locally engaged staff work in these offices and process a large volume of immigration visas, visitor visas, and student and temporary employment authorizations each year. Several other federal departments and agencies also have responsibility for results achieved in the Immigration Program, including the Department of Foreign Affairs and International Trade, the Canadian Security Intelligence Service, the Royal Canadian Mounted Police and Health Canada.

3.12 It is disappointing to note that several of the deficiencies discussed in this chapter are similar to those we reported in 1990. Over the years, the government and the Department have undertaken a number of initiatives to remedy the situation, but without much success.

3.13 This situation requires immediate attention by both the Department and the government. On the one hand, the Department must improve its efficiency in processing immigrant applications. Offices abroad are buried in paperwork, and their outdated technology is a serious obstacle to improving performance. The Department needs much better information on the resources required to fulfil its responsibilities in processing applications. On the other hand, a significant investment of resources may be needed to correct the deficiencies we noted and to allow the Department to realize the potential efficiency gains we identified. It is particularly essential that in deciding on annual immigration levels, the government ensure a proper balance between the resources allocated to the Department and its federal partners and the workload required to meet those levels.

3.14 The Department's current review of the *Immigration Act* provides an excellent opportunity to correct some of the deficiencies. However, the challenge for the government and the Department is enormous and complex. Since Parliament has expressed a particular interest in the Program by requiring the tabling of an annual immigration plan, we encourage parliamentarians to follow the situation closely.

The responses of Citizenship and Immigration Canada, Health Canada, the Royal Canadian Mounted Police, the Canadian Security Intelligence Service and the Department of Foreign Affairs and International Trade are included in this chapter. They agree with our recommendations and note that initiatives are under way in several areas.

Introduction

Immigration plays an important role in Canada

3.15 Immigration has played an important role in the economic, social and cultural development of Canada throughout our history. Over the years, immigrants have cleared and farmed our land, introduced new skills to our labour force and brought in capital, thereby helping our economy to develop.

3.16 Immigration has contributed significantly to our population growth. Almost five million of the Canadians surveyed in the 1996 census were born in other countries. This represents more than 17 percent of the population, the largest proportion in over 50 years. Given Canada's aging population and dropping birth rate, immigration is expected to continue playing a key role in our economic and demographic growth.

Overview of the Canadian Immigration Program

3.17 Parliament has given Citizenship and Immigration Canada (the Department) a mandate to manage immigration to Canada. The Department's responsibilities include setting immigration policy, selecting immigrants, and evaluating visitors' applications abroad. In addition, it supports Canada's humanitarian mission and its international commitments by protecting refugees. It also protects Canadians' health and safety by intercepting individuals who are not entitled to enter or remain in Canada, and returning them to their country of origin. The Department works with other levels of government to help new arrivals settle in and adapt to Canada. Finally, it grants citizenship to people who want to become full-fledged Canadians.

3.18 Immigration in Canada is governed by the *Immigration Act* and Regulations. Among other things, the Act requires the Minister of Citizenship and Immigration to table in Parliament an annual immigration plan for the following calendar year. The annual plan is based on the federal government's current direction to accept annually a number of immigrants equalling up to one percent of Canada's population.

3.19 The planning of immigration levels is done by the Department in consultation with the provinces, certain federal departments, and national and local organizations with a particular interest in immigration. The Department told us that in planning annual levels, it considers external factors such as Canada's capacity to absorb new immigrants and trends in international migration. It also considers internal factors, such as its operational capacity. Following its analysis, the Department recommends to the Minister the immigration levels to be set. The annual immigration levels are then approved by the government before they are announced in Parliament.

3.20 The immigration levels announced annually have remained unchanged for several years at between 200,000 and 225,000 immigrants in four broad components: family, economic, refugee, and other. Our audit focussed on the economic component.

3.21 Immigration services abroad are provided through a complex network of 81 offices in Canadian embassies, high commissions and consulates. About 210 Canadian officers and 980 locally engaged staff work in these offices. In 1999, the offices abroad issued about 184,000 immigration visas, 620,000 visitor visas, 54,000 authorizations for temporary employment and 47,000 student authorizations. There is no consolidated information on the costs of immigration services abroad. Based on the information available, the annual cost of delivering services abroad is at least $155 million.

The immigration levels announced annually have remained unchanged for several years at between 200,000 and 225,000 immigrants.

The purpose of the economic component is to recruit highly qualified individuals who can readily contribute to our economy and adapt to our society.

3.22 The offices are located throughout the world and offer different types of services. Many offices abroad are officially responsible for a territory that includes many countries. For example, the office in Paris covers France and 14 other countries. Other offices, like Beijing in the People's Republic of China, are responsible for only the country where they are located. Appendix A presents more details on the network abroad.

3.23 It is important to note that under the Department's current policy, a person may submit an immigration application to any office, regardless of country of residence. Consequently, in addition to processing applications from residents of the territory under their responsibility, offices abroad can receive applications from all over the world. Exhibit 3.1 shows the 10 offices abroad with the most cases finalized in 1999.

The economic component of the Canadian Immigration Program

3.24 The purpose of the economic component is to recruit highly qualified individuals who can readily contribute to our economy and adapt to our society.

Exhibit 3.1

Top 10 Offices Abroad in Cases Finalized in 1999



Source: Citizenship and Immigration Canada, Report of the International Region

This component targets skilled workers and business immigrants in particular.

3.25 Skilled workers are those whose occupational skills and abilities meet the needs of the Canadian labour market. Business immigrants are investors, entrepreneurs or self-employed workers who can make a significant economic contribution by establishing, purchasing or investing in a business or commercial venture in Canada. Self-employed workers can also contribute to Canada's cultural or artistic life.

3.26 Following a change in the federal immigration policy, the economic component has become increasingly important in the last five years. Exhibit 3.2 shows that of the 189,700 immigrants admitted in 1999, about 105,400 or 56 percent were economic immigrants. This was up from 43 percent in 1994.

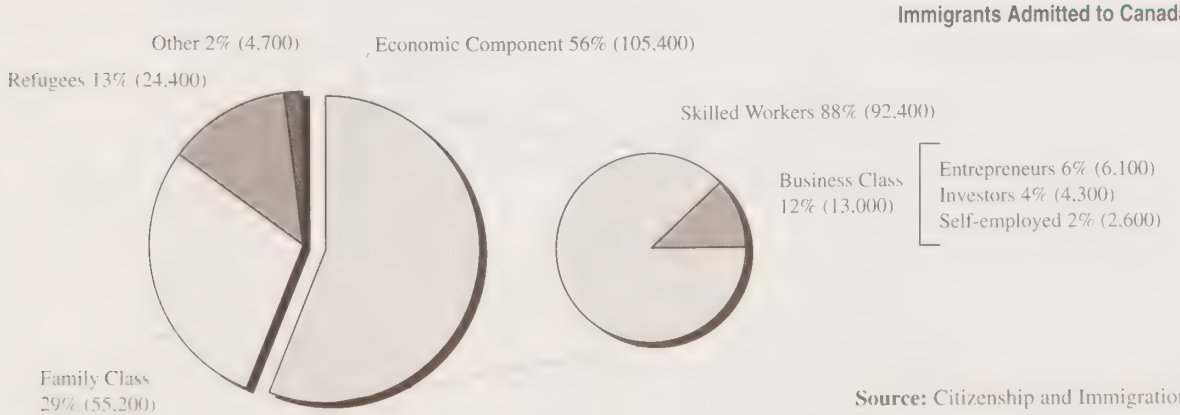
3.27 The number of immigrants admitted includes both principal applicants (40 percent) and their dependants (60 percent). On arriving in Canada, over 75 percent of these immigrants settle in one of the country's three major urban centres: Toronto, Vancouver and Montréal. On the whole, skilled workers are younger than business immigrants and arrive with fewer dependants. They are also better educated and better versed in at least one of our official languages. Appendix B provides a more detailed profile of these immigrants admitted to Canada in 1998.

3.28 The countries that are the main sources of economic immigrants change over the years. Departmental figures show that the People's Republic of China has consolidated its position as the primary source of immigrants to Canada in recent years. Hong Kong, however, has dropped from first to third place since 1996. Exhibit 3.3 shows the 10 countries that were leading sources of economic immigrants in 1998. Applicants originating from these countries represented nearly 60 percent of the total number of immigrants under the economic component.

3.29 Exhibit 3.4 shows the main steps in processing applications of economic immigrants. When considering an application, a visa officer ensures that the applicant meets the selection criteria. (Appendix C lists the specific selection criteria for each category in the economic component.) All applicants and their dependants must also meet the health, security and criminal record requirements of the *Immigration Act*. They are therefore required to undergo a medical examination, and persons aged 18 and

Exhibit 3.2

Immigrants Admitted to Canada in 1999



Source: Citizenship and Immigration Canada

Several other federal departments and agencies also have responsibility for results achieved in the Immigration Program.

over are subject to criminal and security checks.

3.30 Finally, immigration officers at a Canadian port of entry will grant landed immigrant status after ensuring that the immigration visa is still valid. Landed status imposes certain conditions on entrepreneur immigrants. The Department's regional offices in Canada are responsible for ensuring that these immigrants meet those conditions.

3.31 Applicants who are refused an immigration visa may challenge the visa officer's decision by applying to the Federal Court for a judicial review.

Several partners contribute to achieving the economic component's objectives

3.32 Several other federal departments and agencies also have responsibility for results achieved in the Immigration Program. The Department of Foreign Affairs and International Trade is responsible for providing common services and is also the employer of all locally engaged staff for immigration activities abroad. The Canadian Security Intelligence Service advises Citizenship and Immigration Canada on immigrant-related security matters. The Royal Canadian Mounted Police plays a role in criminal screening. Health Canada is responsible for the health policy aspects of the Immigration Program and setting standards for immigration medical assessments. Human Resources Development Canada is involved in developing criteria used by the Department in selecting skilled worker immigrants and also provides a job validation opinion in some cases.

3.33 Under the Constitution, the federal government and the provinces share jurisdiction over immigration. It is important to note that the *Canada-Québec Accord Relating to Immigration and Temporary Admission of Aliens* gives Quebec authority to set its own selection criteria for immigrants under the economic component. It is up to the Department, however, to ensure that they meet the health, security and criminal record requirements. In 1999, Quebec selected over 14,000 immigrants in the economic component.

3.34 In the past two years, the Department has signed federal-provincial agreements on provincial nominees with British Columbia, Manitoba, New

Exhibit 3.3

Top 10 Source Countries of Economic Immigrants in 1998

Countries	Number of immigrants admitted
People's Republic of China	13,248
Taiwan	6,713
Hong Kong*	6,232
Pakistan	5,531
Iran	4,698
South Korea	4,519
India	4,266
France	3,375
Russia	3,263
Philippines	2,634

* Hong Kong is a special administrative region of the People's Republic of China

Source: Citizenship and Immigration Canada, *Facts and Figures 1998*

Note: The figures include principal applicants and dependants.

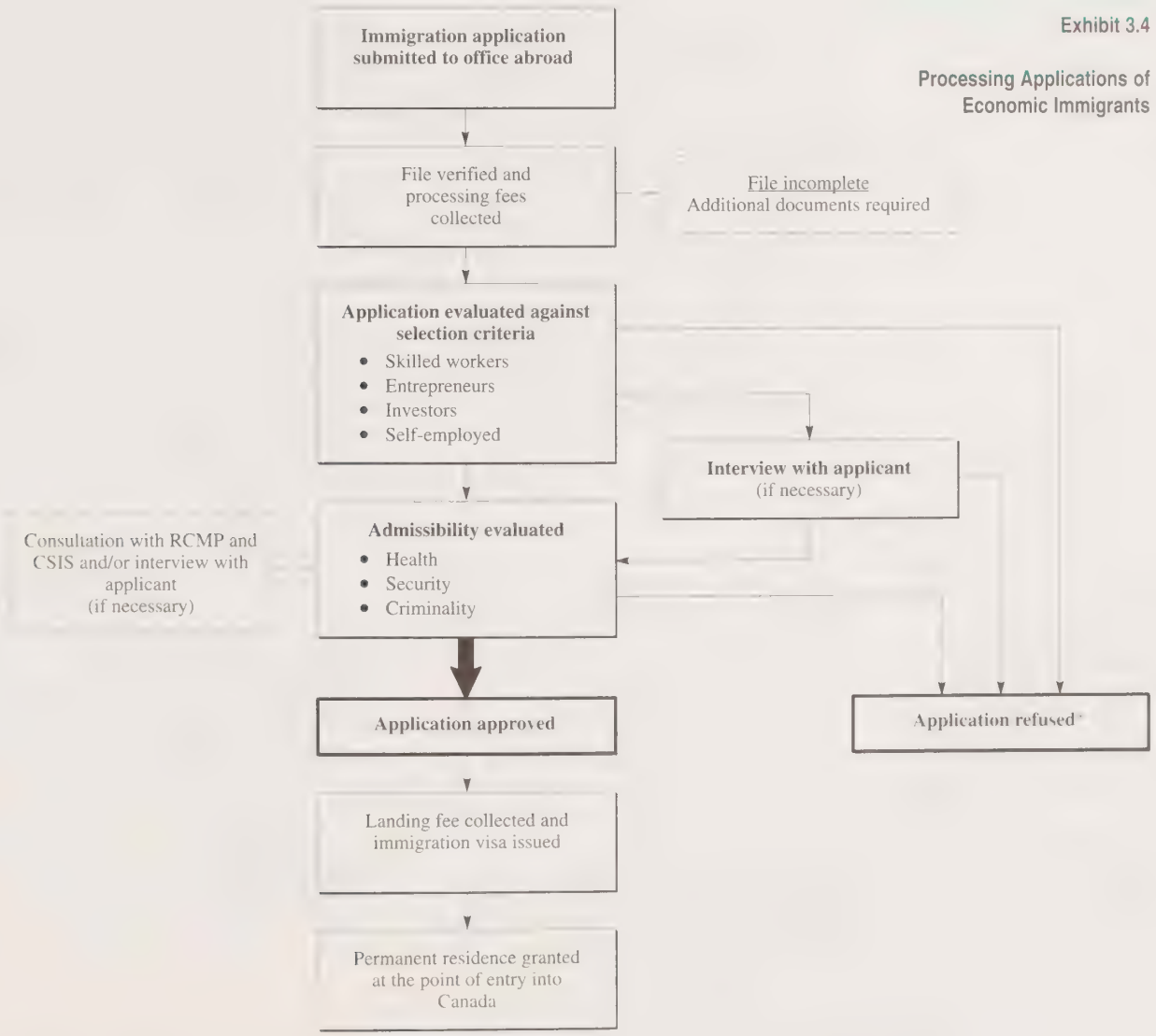
Brunswick, Newfoundland and Labrador, and Saskatchewan. These agreements allow the provinces to recruit immigrants more actively and to nominate a certain number of people likely to meet the specific needs of the provincial labour markets. The provinces then refer them to the Department, which retains responsibility for selecting those who will be admitted.

Major changes have been made to the Program's delivery since our last audit

3.35 Our last audit of the Immigration Program's delivery abroad was published in our 1990 Report. Since then, there have been major changes in the division of responsibilities for managing the Program. In 1992, the government transferred the immigration functions of the Department

Exhibit 3.4

Processing Applications of Economic Immigrants



*If refused, an applicant may request a judicial review by the Federal Court.

Source: Citizenship and Immigration Canada

of External Affairs to the Department of Employment and Immigration. In 1993, most of the responsibilities related to the health of immigrants were transferred from the Department of National Health and Welfare to the Department of Employment and Immigration. Finally, in June 1994, Parliament established the Department of Citizenship and Immigration, a new department combining a range of program elements transferred from several other federal departments.

3.36 In the meantime, the federal government began its Program Review, resulting in large cuts to the budgets of several departments and agencies. Citizenship and Immigration was no exception; its operating budget was cut by $54 million, almost 20 percent, between 1996 and 1998. To be able to continue delivering its Immigration Program with fewer resources, the Department had to review several of its procedures, adopt new ways of doing business and make significant organizational changes. This included a major reorganization of its service delivery network abroad.

Factors affecting the Immigration Program

3.37 New trends in the flow of migration. During the last decade, globalization has led to major political, social and economic changes. These changes have clearly influenced the flow of migration and, as already noted, the source countries for immigrants have changed over the years. At the same time, the number of visitors, temporary workers and foreign students has risen significantly. Because their applications are given priority by offices abroad, they have an impact on the resources available to process immigration applications.

Canadian society is more and more concerned about illegal immigration and abuse of the immigration process.

3.38 Mounting risk of fraud and false statements. Globalization has also created major challenges for immigration generally. Growing numbers of people are prepared to break our laws to improve their living conditions, and Canadian society is more and more concerned about illegal immigration and abuse of the immigration process. This means the Department must devote more of its resources abroad to control and interdiction efforts and checking documentation.

3.39 Fewer applicants meeting the selection criteria requirements. Departmental figures show a decrease in the rate of applications approved in recent years. This represents not only fewer potential immigrants but also an increased workload for visa officers, because they must support their decisions thoroughly when they refuse an application. In the event of a judicial review, they must also defend their position before the Federal Court.

3.40 More court cases. Since the passage of the *Canadian Charter of Rights and Freedoms*, the selection of immigrants has moved toward a more legalistic application of the selection criteria specified in the *Immigration Act* and Regulations. It no longer relies mainly on the visa officer's evaluation of the applicant's capacity to settle in Canada and contribute to the economy. Every year, a number of decisions are brought before the Federal Court and recent years have seen this number grow. This trend reflects applicants' heightened expectations of the right to fair treatment. Also, a growing number of applicants are represented by lawyers or immigration consultants.

3.41 Immigration applications are subject to numerous interventions. Immigration issues deal with people, and frequently attract media attention. In addition, elected representatives, non-governmental organizations and other stakeholders often contact program managers about specific cases. Following up information requests and interventions from lawyers, immigration consultants

and members of Parliament represents a significant workload in many offices.

A major review of the *Immigration Act* is under way

3.42 The Department began a legislative review in November 1996, with the creation of the Legislative Review Advisory Group. In January 1998, this advisory group published a report with 172 recommendations on immigration and determining refugee status. In the months that followed, the Department consulted many Canadians and, in a January 1999 document entitled "Building on a Strong Foundation for the 21st Century", announced new directions for the Act and for policies on immigration and protection of refugees. The Department has also used this document to initiate discussions with provincial governments, its federal partners and Canadians. The Department informed us that the Minister is planning to introduce legislative amendments in Parliament sometime this year. The amendments will be aimed at improving the effectiveness, fairness and integrity of the immigration process and making the *Immigration Act* clearer and more consistent.

Focus of the audit

3.43 The primary focus of our audit was to determine whether Citizenship and Immigration Canada is managing the economic component of the Canadian Immigration Program efficiently and economically, fostering the achievement of desired results and maintaining the program's fairness and integrity. Our audit included visits to several offices abroad and a survey of employees involved in program delivery.

3.44 Further details on the audit objectives, scope, method and criteria are presented at the end of the chapter, in the section **About the Audit**.

Observations and Recommendations

Immigration Offices Abroad Cannot Cope With the Task

Immigration levels not met, longer processing, and applications in process increasing

3.45 Our review of the operational results of offices abroad shows that, on the whole, they are having considerable difficulty processing immigration applications quickly and effectively. Immigration levels have not been met for the past two years. In addition, it has taken longer to reach a decision and there is a growing number of applications at various stages in the process. We find these results particularly worrisome because, as we note later in this chapter, we have serious concerns about the quality of selection decisions. We are also concerned about whether procedures to verify the accuracy of the information that applicants provide are adequate to ensure that they are admissible to Canada.

3.46 Canada received around 173,800 immigrants in 1998 and 189,700 in 1999 (see Exhibit 3.5). These results are below the range of 200,000 to 225,000 immigrants forecast for each of these two years. The Program's economic component shows the biggest shortfalls. In 1999, for instance, 92,366 people were admitted as skilled workers and only 13,012 as business immigrants — respectively lower by 8 percent and 26 percent than the lowest levels forecast for these two classes.

3.47 Exhibit 3.6 provides data on processing times and numbers of immigration applications in process at offices abroad. We note that processing times are increasing: applicants are waiting longer and longer for their applications to be finalized, particularly those in the economic component. In 1999, the period from the time the

The period from the time the Department received an application until it made a decision averaged 28 months for business immigrants and 25 months for skilled workers.

Department received an application until it made a decision averaged 28 months for business immigrants and 25 months for skilled workers, whereas in 1996 it was 15 months and 13 months respectively.

3.48 As Exhibit 3.6 shows, there are significant differences from office to office. To finalize a skilled worker's application at the Beijing office, for example, took over three years. The situation was similar for business immigrants' applications submitted to the Buffalo and the Islamabad offices, where processing times were 35 and 34 months respectively.

3.49 Finally, the volume of applications at various stages of the process is particularly disturbing: it has increased by 38 percent in the past three years. In late 1999, there were almost 175,000 applications at various stages of processing, which represents over 280,000 potential immigrants.

3.50 The effects of this situation on the quality of service to applicants is clear. Long delays in processing also add to the workload because they result in numerous requests for information from applicants and those lobbying on their behalf, and offices abroad must respond. In addition, the situation in certain offices leads many applicants to submit their application to offices outside their country of residence, knowing that their wait will be shorter. As explained in paragraphs 3.141 to 3.153, this adds to the difficulties of processing applications.

3.51 These processing delays could have an even greater long-term impact on the effectiveness of the Program's economic component, and they require particular attention. Canada is in tough competition with a number of countries to attract high-calibre immigrants. The Department's inability to process their applications within a reasonable period of time could discourage the most attractive candidates and deprive us of their valuable contribution to our economic development.

Imbalance between resources available and work required to ensure Program integrity

3.52 The Program's current difficulties stem from a number of factors. In this chapter, we note problems of operational

Exhibit 3.5

Statistics on Immigration Levels and Landings

	1998		1999		2000
	Planned Levels	Landings	Planned Levels	Landings	Announced Levels
Economic Component					
Skilled workers	96,600 – 106,600	81,146	100,200 – 111,200	92,366	100,500 – 113,300
Business class	19,300 – 21,300	13,778	17,700 – 19,700	13,012	15,000 – 16,000
Total	***115,900 – 127,900***	***94,924***	***117,900 – 130,900***	***105,378***	***115,500 – 129,300***
Family	53,500 – 58,300	50,861	53,500 – 58,300	55,187	57,000 – 61,000
Refugees	24,100 – 32,300	22,644	22,100 – 29,300	24,363	22,100 – 29,300
Others	6,500	5,407	6,500	4,763	5,400
Total	**200,000 – 225,000**	**173,836**	**200,000 – 225,000**	**189,691**	**200,000 – 225,000**

Note: The numbers include principal applicants and dependants.

Source: Citizenship and Immigration Canada

efficiency and effectiveness in various aspects of application processing. The Department can certainly improve its way of doing business. However, we have serious concerns about the resources now devoted to processing immigration applications on the one hand and, on the other, the extent of work required to ensure the quality of decisions and the integrity of the Program.

3.53 As we noted in the introduction to this chapter, the Department has undergone large budget cuts in recent years. It was therefore essential to clearly identify the impact of these cutbacks on its program delivery abroad, and to determine whether immigration levels should be reduced accordingly or could be attained through gains in efficiency.

3.54 During our audit, we noted that the Department's senior management was aware of the challenges in processing applications with its present resources. In planning the 1999 immigration levels, for example, the Department indicated that it would be very difficult to maintain levels

Exhibit 3.6

Average Processing Times and Cases in Process, 1996 to 1999

Average processing time* for immigrant application (months)	1996	1997	1998	1999
Skilled workers	13	16	21	25
Business class	15	18	24	28

*Months required to complete 80 percent of cases

Average processing time* for immigrant application, top 10 foreign offices (months)	Skilled workers	Business class
Beijing (People's Republic of China)	37	25
Buffalo (U.S.A.)	17	35
Damascus (Syria)	22	25
Hong Kong**	16	26
Islamabad (Pakistan)	32	34
London (United Kingdom)	23	24
Manila (Philippines)	25	28
New Delhi (India)	32	30
Paris (France)	14	24
Singapore (Singapore)	34	28

* Months required to complete 80 percent of cases
** Hong Kong is a special administrative region of the People's Republic of China

Cases in process at 31 December	1996	1997	1998	1999*
All categories	127,125	148,765	161,574	174,801
Skilled workers	69,573	91,895	106,351	115,200
Business class	10,300	11,180	11,542	12,248

*Data obtained to 30 November 1999

Source: Citizenship and Immigration Canada, Report of the International Region, Database of the Computer-Assisted Immigration Processing System

at 200,000 to 225,000 given its current resource base and delivery network. It said that pressures on the integrity of the Program and selection process would result. Following the government's decision to maintain immigration levels at 200,000 to 225,000, the Department directed offices abroad to meet them. The Department also indicated that offices abroad would be provided with additional resources to meet the challenge through temporary duty assignments. These, however, are short-term measures that cannot be sustained over a long period without risk. Consequently, the Department has made efforts to obtain additional resources but without success. It has also launched a series of initiatives to review its operating methods with the aim of attaining the levels announced by the government. The review of the Program's current performance shows clearly that the Department's efforts have not produced the desired results.

In its current operations and with the resources at its disposal, the Department is overtasked.

3.55 Our opinion of the situation is not cut and dried. On the one hand, the significant weaknesses we note in this chapter lead us to conclude that in its current operations and with the resources at its disposal, the Department is overtasked. On the other hand, we have noted deficiencies that have a considerable impact on the efficiency of its operations. Significant investments may be required to correct some of them. The Department lacked the data we would need to calculate the savings possible through improved efficiency. We thus could not determine the degree of imbalance at present between the resources available and the level of work required to ensure the integrity of the Program.

Much better information needed on resources required in offices abroad

3.56 We expected to find sufficient and reliable information on the resources needed to process immigration applications. However, we noted that the Department's approach to determining needs and allocating resources requires significant improvements.

3.57 We first noted that the Department's data on resources allocated to offices abroad are presented for all activities related to processing the applications of immigrants and non-immigrants alike. There is no consolidated information for the Department as a whole on the resources used in processing immigration applications. Nor does the Department have complete information on the resources used by its federal partners in processing applications.

3.58 In addition, in 1990 we recommended that efficiency norms be established for each office to serve as guides for determining immigration levels, assigning targets for application processing and allocating resources. Efficiency norms are the fundamental basis for measuring the operational capacity of the Department. They are essential to justifying the level of resources it needs to attain the target levels of immigration. We note that the Department has not yet established such norms.

3.59 It is important that the Department have reliable information on the average time it normally takes staff to process a given number of immigration applications while ensuring that they comply with the Act. These norms need to reflect local conditions like the infrastructure in each country, the language, complexity of the applications, size of territory covered, the risk of false statements and fraudulent documentation, and the expertise of the office's Canadian staff and locally engaged employees. To that end, it is essential that the Department clearly establish the level of quality and integrity it expects in the processing of applications and the degree to which that level is at risk.

3.60 Without such norms, the Department cannot establish precisely enough the level of resources required in each office abroad. This makes it difficult for the Department to evaluate the effect of resource reductions on volumes of applications it can handle and on their processing times. It also makes it hard to determine by how much offices can increase their target volumes or reduce their processing times with additional resources. As a result, we noted situations where headquarters had significantly increased processing targets for certain offices, while the managers of those offices were unable to explain how they would meet them. Also, it is important that the Department have better information on the resources required by the Department of Foreign Affairs and International Trade, the Canadian Security Intelligence Service and the Royal Canadian Mounted Police.

Employees deeply concerned

3.61 During our visits, we observed the work of visa officers and Immigration Program managers and interviewed a number of them. As part of our audit, we also conducted a survey of employees in offices abroad who are responsible for processing immigrant applications. Our meetings and this broad consultation enabled us to draw very positive conclusions about the calibre and commitment of those responsible for program delivery abroad. Our observations in this chapter are in no way intended as a criticism of them. However, we are very concerned about the potential impact of existing problems on employee morale, attitudes and future performance.

3.62 Generally, employees are very concerned about the present state of affairs and feel they are no longer up to the task. A high percentage of employees feel they must contend with operational requirements that seriously limit their ability to protect the Program's integrity. They have neither the time nor the tools they need to do the work that is normally required. Many of the employees' comments indicate an obvious malaise. Visa officers feel they are not only going against their own values but also making decisions that could carry risks that are too high and that could entail significant costs for Canadian society.

3.63 The Department should:

- **acquire the necessary tools to rigorously identify the level of resources required for processing applications in the offices abroad; and**
- **ensure an appropriate balance between the resources allocated to each office and the targets assigned to each for processing applications.**

Department's response: *The Department has recognized these problems and has taken action. A model to identify the level of resources required for processing both immigrant and non-immigrant applications in offices abroad is being validated for implementation in the 2000–01 fiscal year. It is designed to ensure an appropriate balance between resources allocated to each office and the targets assigned. The model includes a monitoring feature that will indicate ongoing resource deficits/savings.*

3.64 The government should ensure an appropriate balance between annual immigration levels and the capacity of the Department and its federal partners to meet those levels while ensuring compliance with the *Immigration Act*.

The Quality and Consistency of Selection Decisions Are at Risk

3.65 Visa officers evaluate the applications of economic immigrants using a point rating system. They examine mainly the applicant's education, employment training, work experience, occupational demand, age, knowledge of English and French, and personal suitability. In the case of business immigrants, officers must also ensure that

The Department cannot establish precisely enough the level of resources required in each office abroad.

We draw very positive conclusions about the calibre and commitment of those responsible for program delivery abroad.

the applicant meets the definition of investor, entrepreneur or self-employed worker (see Appendix C for specific selection criteria).

3.66 To ensure the quality and consistency of decisions and the Program's integrity, we believe that five essential conditions must be met. The selection criteria must be relevant and measurable. Officers must have the skills and knowledge needed to process applications. They must have efficient and effective tools for evaluating the criteria and detecting misrepresentations. Monitoring mechanisms must be in place to ensure the quality and consistency of decisions. Finally, it is essential that the Department have measures to discourage applicants from being dishonest and that it impose penalties in cases of abuse.

Selection of business immigrants relies primarily on regulatory definitions that are vague and difficult to apply.

Selection criteria not conducive to attaining Program objectives

3.67 If the objective of the economic component is to be met, skilled workers and business immigrants must be highly qualified and able to adapt rapidly to our economy and our society. The Department must therefore be able to rely on criteria that support the selection of such persons.

3.68 The economic component has been the subject of many studies since 1985. Appendix D lists the studies we reviewed. We took the results of these studies into account in the course of our audit. We also examined program evaluation reports prepared by the Department.

Selection criteria for skilled workers are no longer adequate and are not supported by indicators of immigrants' integration into Canadian society.

3.69 Recent studies show that the selection criteria for skilled workers are no longer adequate and are not supported by indicators of immigrants' integration into Canadian society. In addition, the selection criteria raise false hopes among immigrants. In basing selection on a list of occupations in demand in Canada, the Department implies that there is a shortage of workers in certain professions. Furthermore, this list was prepared in 1993 and has not been updated since. It may therefore not be a true reflection of Canada's labour market. Moreover, entry to professions in Canada and recognition of professional titles and diplomas pose major problems for new immigrants.

3.70 Selection of business immigrants relies primarily on regulatory definitions of entrepreneur, investor and self-employed worker. However, these definitions are vague and therefore difficult to apply. This was confirmed in the responses to our survey of visa officers. In addition, the majority of business class cases reviewed by the Federal Court involved the way officers had interpreted these definitions. Finally, a federal-provincial task force indicated that the method of selecting business immigrants puts the Program at risk because it leaves open the possibility of fraud, organized crime and illegally obtained money. Many visa officers and managers of offices abroad told us they had the same concerns.

3.71 The studies we reviewed also mentioned concerns specific to each category in the business class. A major concern about investors was the lack of control and monitoring of the way invested funds were managed in Canada. Important legislative amendments made in April 1999 addressed this issue. The studies criticized the fact that once in Canada, a good percentage of immigrants in the entrepreneur class had not met the conditions imposed by their visa. The Legislative Review Advisory Group expressed the view that the self-employed class should be eliminated, because it provides a loophole for applicants who are unable to meet the requirements for investor or entrepreneur immigrants.

3.72 In the document entitled "Building on a Strong Foundation for the 21st Century", the Department proposed amending the selection criteria for skilled workers to emphasize versatility and flexibility rather than focussing on specific occupations. In addition, the

Department plans to add explicit conditions for entrepreneurs and investors that deal with business experience, education and knowledge of an official language. However, the Department has not said what it plans to do about the selection criteria for self-employed workers.

3.73 The Department should amend the selection criteria to make them conducive to a rigorous selection of economic immigrants and the achievement of the Program's objectives.

Department's response: *While the current selection system has served the country well, the Department is redesigning the selection system based on the longer-term goals of building Canada's human capital base. Development of the new model has been based on extensive research and consultations to reflect the changing labour market. The model will shift away from the current occupation-based system to select skilled workers with sound and transferable skill sets.*

Visa officers receive insufficient training

3.74 In general, visa officers are Canadian citizens with at least one university degree who have passed the Foreign Service examinations. The goal is to recruit adaptable, imaginative and flexible candidates who show good judgment and have excellent communication and analytical skills. The Department also uses locally engaged employees as visa officers.

3.75 In 1998, the Department joined forces with the Department of Foreign Affairs and International Trade to develop a Foreign Service development program, including a competency-based model, in order to recruit and train officers who could meet its future requirements. We encourage the Department to pursue its efforts in the selection and training of new employees. However, we have concerns about the development program for visa officers. In our opinion, their training is insufficient in several respects.

3.76 A good understanding of local conditions is a key factor in evaluating immigration applications. Canadian officers told us that their training needs have not been met, particularly training on the social and economic conditions in applicants' countries of origin. Evaluating business immigrants' applications is complex and requires a certain expertise in business administration. We noted that the training in this area has been very limited in the last five years.

A good understanding of local conditions is a key factor in evaluating immigration applications.

3.77 There is a pressing need for training to improve visa officers' decision-making skills in an increasingly legalistic environment. A course of this kind was developed in 1996, but fewer than 25 percent of visa officers were able to enrol because there were no resources to offer it. Such training could improve their decisions and their motivation, which would help reduce the number of cases brought to the Federal Court and the number of cases lost, as happened in one of the offices where the training was offered.

There is a pressing need for training to improve visa officers' decision-making skills in an increasingly legalistic environment.

3.78 For some years, the Department has relied on temporary staff and employees on single assignments overseas to meet the demand abroad. These Canadians perform the duties of visa officers. We therefore expected that they would receive the training they need to assume these responsibilities. However, several did not.

3.79 Local training initiatives help officers develop and maintain their skills. However, the importance attached to training varies considerably from one office to another. Some offices offer training regularly on a range of subjects related to evaluating immigration applications. Others are content to offer a few courses on the use of computer software.

3.80 The Department should review its overall training strategy and take the necessary steps to ensure that all those responsible for immigration decisions receive appropriate training.

Department's response: *Since 1992, the full-time equivalents allocated for training dedicated to overseas operations have increased by 50 percent and the budget has doubled. A number of new training programs have been developed and delivered, including courses for Immigration Program Managers and a rigourous training and probation system for locally engaged Designated Visa Officers. The Department, in conjunction with the Department of Foreign Affairs and International Trade, has established an enriched training program for foreign service officer recruits, modelled on the federal government's Management Trainee Program. Building on the success of the Strengthening Refusals training course, the Department has launched a litigation training course, delivered on-site in missions with high volumes of litigation, to enhance decision-making skills and consistency in processes. A conference for visa officers from each of the Business Immigration Centres was held in February 1999 to share best practices and promote consistency in decision-making. Country-specific information that describes the business environment for the top source countries of business-class immigrants has been developed and distributed. Efforts to increase relevant training opportunities for overseas staff will continue.*

Officers need better tools to evaluate applications

3.81 We noted that the lack of certain basic tools to support officers in their decision making has a negative impact on the efficiency and effectiveness of operations.

3.82 For example, the Department does not use standardized language tests; each officer must use his or her judgment to evaluate an applicant's ability to communicate in English or in French. Cases brought to the Federal Court revealed some problems with procedural fairness in assessing the applicant's language skills. In addition, there are no tools to help officers readily assess education and employment training. Each must therefore conduct the necessary research.

3.83 In the absence of better tools, officers sometimes have to rely on interviews to evaluate an applicant's language skills, academic training and work experience. Interviews are one of the most costly activities in the processing of applications and often delay it considerably. It is therefore essential that interviews be used only when there is no more economical and effective way to obtain the required information.

3.84 The Department should ensure that visa officers have the necessary tools and means to help them make their selection decisions efficiently and effectively.

Department's response: *As part of the overall review of the immigration processing continuum, the Department is working on an array of projects and initiatives to facilitate decision making abroad. For example, standardized language tests for both official languages, country-specific resource tools on how documents issued by local educational institutions should be assessed, and descriptions of business environments are being developed. In addition, the Department will expand the use of Business Performance Assessments, which are an impartial and objective assessment of the economic performance of an applicant's business and a verification of the applicant's role in the management and operation of the business, completed by selected international accounting firms. The Department will be redesigning its selection criteria for economic migrants to make Canada's immigration system*

simpler, more effective, and more comprehensible, which should result in straightforward and more consistent decision making.

No framework for monitoring quality of decisions

3.85 Visa officers have broad discretionary powers and their decisions can be challenged only by a judicial review before the Federal Court. A framework for quality assurance is therefore essential to ensure the quality and fairness of decisions. But the Department has no such framework.

3.86 Overall, we observed that the quality of decisions is not monitored sufficiently. In offices abroad, managers seem torn between their desire to manage the Program well and the fear that their interventions will be seen as a hindrance to officers' use of their discretionary powers. Monitoring activities therefore vary considerably from one office to another and performance indicators in this area are very limited. More attention is paid to the number of cases processed.

3.87 Acceptance rates can be one indicator of consistency in decision making. We noted significant differences in approval rates among officers processing similar cases in the same office. As paragraph 3.148 notes, we also found that acceptance rates for nationals of the same country varied by more than 40 percent among certain offices. The lack of an appropriate quality assurance framework for decisions leaves the Department open to criticism.

3.88 Unlike family class applicants, economic immigrants have no appeal mechanisms under the *Immigration Act* to have the visa officer's decision changed. However, a judicial review by the Federal Court may allow for re-examination of a refused application when, for instance, it appears that the principles of natural justice have not been respected. Recent years have seen more cases brought to the Federal Court. These judicial reviews place a heavy demand on the resources of the Department and the federal government. The results of our survey of visa officers indicated that there is a danger that the reviews will have an adverse effect on their motivation and behaviour. In fact, visa officers fear that the Department has lost control of the Program due to external factors such as judicial reviews and abuse of the process by certain applicants and their representatives. Many officers and managers now feel that the objective of selecting desirable immigrants has been replaced by the objective of justifying refusals. In their opinion, the program has evolved to a point where the burden of proof in many cases rests on their shoulders and not the applicants'. The current situation clearly demonstrates the need for a solid framework for monitoring the quality of decisions. Such a framework would foster the coherence and legitimacy of the process, and would contribute to the making of sound, well-justified and documented decisions.

3.89 The Department should adopt a quality assurance framework to ensure consistency in decision-making and the fairness and integrity of the program.

Department's response: *There are already a number of quality assurance initiatives that examine uniformity in decision making and the interview waiver criteria currently being applied. A number of missions abroad have established their own quality assurance initiatives; however, they are not comprehensive in nature. The Department will expand the existing quality assurance programs. A new quality assurance program would monitor the quality and consistency of decisions and make adjustments as required, while validating and readjusting the delivery network's risk management framework and practices.*

In response to concerns regarding litigation of visa officers' refusals, the Department has developed an action plan

We noted significant differences in approval rates among officers processing similar cases in the same office.

for a more co-ordinated and strategic approach to litigation. An important component of this plan is litigation training in missions abroad. Ten missions account for 72 percent of all visa litigation and, by March 2000, training will have taken place in six of these missions. The Department has also analyzed the quality of decision making, in the context of judicial reviews.

Need for better ways to protect against fraudulent applications

3.90 The selection of immigrants is based on a system of voluntary declaration. Applicants must, in good faith, submit the information required to process their application. It is realistic to expect that some applicants will try to beat the system and that visa officers will process some applications that contain false statements and fraudulent documents. The Department has noted an increase in the submission of false statements and fraudulent documents.

3.91 In view of such a threat to the Program's integrity, we would expect that the Department would develop a strategy with measures to discourage fraudulent applications and make it possible to detect abuses and impose penalties. But we found that efforts in this direction have been sporadic and poorly co-ordinated.

Submitting false information results in the refusal of an application at worst, and nothing prevents the applicant from submitting another application the next day.

3.92 The Department is very tolerant of applications that are accompanied by false statements and fraudulent documents. Submitting false information results in the refusal of an application at worst, and nothing prevents the applicant from submitting another application the next day. The penalties now stipulated in the Act are practically unenforceable in other countries.

3.93 In this environment, visa officers must rely on their experience and resort to detection methods that are very costly. These include interviewing applicants, examining original documents, and making telephone calls or site visits to confirm the validity of documents and statements. Some officers can count on more specialized assistance. There are immigration control officers (ICOs) in 27 offices abroad. ICOs are employees of the Department who have been assigned the role of preventing travel to Canada by people without the required documents. Their role is to liaise with airlines and local authorities to intercept improperly documented passengers. Some visa officers have taken advantage of ICOs' expertise in recognizing fraudulent travel documents to detect fraudulent documents in immigration applications. Some ICOs develop on-the-job expertise in detecting fraud and false statements. However, this additional task is not part of their core duties. Therefore, the support they provide to visa officers varies considerably from one office to another.

3.94 In our opinion, the Department could reduce the significant amount of resources used to detect fraudulent applications if it had effective measures to discourage them. The Department would be well advised to review the policies and measures it applies when applicants make false statements or try to abuse the program.

3.95 The Department should establish and implement a strategy to reduce to an acceptable and manageable level the risk that applicants will submit false statements or fraudulent documents.

Department's response: *The Department agrees with the observations and is examining measures to enact additional sanctions for applicants submitting false statements and/or fraudulent documents. The Department will review and consolidate its anti-fraud ability and is evaluating diverse strategies to maximize fraud detection.*

Controls to Protect Canadian Society Are Deficient

3.96 One of the objectives of the *Immigration Act* is to maintain and protect the health, safety and good order of Canadian society. Another objective of the Act is to deny use of Canadian territory to persons likely to engage in criminal activities. Section 19 of the Act defines the classes of people who are inadmissible to our country. In addition to meeting the selection criteria, applicants must meet the admissibility criteria before they are allowed to immigrate to Canada. However, the Minister may issue a written permit authorizing a person to come to or remain in Canada even if he/she is inadmissible. In 1998, for example, 153 permits were issued to medically inadmissible persons and 1,352 permits were issued to people with criminal convictions of varying degrees of severity.

3.97 A sound risk management approach is critical to meeting this objective. It is not cost-effective, or even possible, to have controls in place to guarantee that all inadmissible persons are identified. However, controls must reflect the risks to public health and safety and provide reasonable assurance of protection.

3.98 Our survey of visa officers shows that it is often difficult to establish with any reasonable certainty whether an applicant is inadmissible. We noted that very few applicants are denied permanent residence on the grounds of inadmissibility. In fact, since 1994 fewer than 2 percent of applicants have been turned down for reasons of health, criminality or security.

3.99 On the whole, we are very concerned about the Department's ability to ensure compliance with legislative requirements in this area. We noted serious deficiencies in the way it applies admissibility criteria related to health, criminality and security. It is somewhat disappointing to note the limited progress it has made since our 1990 Report, which noted many of the same problems. We believe that the Department needs to take corrective action without delay to ensure the integrity and effectiveness of the Canadian Immigration Program.

Significant weaknesses in determining medical admissibility

3.100 Under the Act, persons are inadmissible if their state of health poses a danger to public health or public safety, or if admitting them could reasonably be expected to place excessive demands on the health care system or social services. All immigration applicants and their dependants are therefore required to undergo a medical examination.

3.101 The Department employs Canadian physicians to manage the determination of medical admissibility. These departmental physicians supervise local physicians whom the Department has designated to conduct medical examinations on its behalf. These designated local physicians forward the results of the examinations to the departmental physicians who, in turn, submit their recommendations to visa officers. Determining whether or not applicants and their dependants are admissible is ultimately the visa officer's responsibility.

3.102 We note that in April 1993, the Immigration and Overseas Health Services Division of the Department of National Health and Welfare was transferred to the Department of Employment and Immigration. Both departments signed a memorandum of understanding (MOU) that sets out, among other things, guidelines for managing medical admissibility and mechanisms for co-operation between them. The MOU stipulates that Health Canada is responsible for the health policy aspects of the Immigration Program and for setting standards for immigration medical assessments. Citizenship and Immigration

In 1990 we pointed out the need to define the terms "danger to public health and public safety" and "excessive demand". Ten years later, these terms have not yet been defined.

is responsible for the medical evaluations and defining what constitutes excessive demand on health care or social services.

3.103 In our opinion, to be able to discharge its responsibilities under the Act effectively, the Department needs to meet three conditions. First, the standards for medical examinations must be based on clear definitions of "danger to public health and public safety" and "excessive demand". Second, the Department needs assurance that the medical examinations are being conducted in accordance with accepted requirements and practices. Finally, it needs to have effective mechanisms in place to monitor immigrants who require medical surveillance after arriving in Canada.

3.104 There is a need to define the terms "danger to public health and public safety" and "excessive demand" to ensure compliance with the Act. In 1990 we pointed out the importance of defining these terms. Ten years later, we are disappointed to see that they have not yet been defined. Several attempts have been made (see Exhibit 3.7) but with few results.

3.105 In order to assess the medical admissibility of applicants, departmental physicians rely on the results of mandatory tests and the outcomes of the medical examinations performed by the designated local physicians. Although the medical examination could be an effective tool to detect a serious medical condition, it is less reliable than mandatory tests — especially when medical conditions are asymptomatic or when the supervision of designated local physicians is insufficient.

The same mandatory tests have been required for the last 40 years, namely urinalysis and tests for syphilis and tuberculosis.

3.106 Applicants and their dependants undergo the same mandatory tests that have been required for the last 40 years, namely urinalysis and tests for syphilis and tuberculosis. There has been considerable change in the identification of infectious diseases over the years, which include such viruses as human immunodeficiency virus (HIV) and hepatitis B and C. Questions have been raised as to whether these diseases could present a danger to public health or entail heavy costs for the health care system and social services in Canada. Health Canada informed us that pending an evidence-based analysis of the risks these diseases pose to public health, tests for them have not yet become part of the routine testing of applicants.

3.107 Evaluating "excessive demand" requires that a departmental physician first estimate the costs associated with an applicant's medical condition and then determine whether those costs are too high to admit the applicant into Canada. To help in this, the Department prepared draft reports in 1994–95 analyzing the costs associated with 10 medical conditions. These reports have not been updated since then or officially released. Because there are still no official criteria for establishing the point at which a cost is considered excessive, departmental physicians must devise their own and, as they think appropriate, consult their medical colleagues or related literature. The absence of specific criteria makes it very difficult for departmental physicians to determine whether applicants are admissible and to justify their refusals in Federal Court. Furthermore, the quality and consistency of decisions on medical admissibility are far from assured.

3.108 Significant weaknesses in managing and overseeing the network of departmental and designated local physicians abroad. Since 1995, the Department has made significant changes in the way it carries out and manages activities for determining medical admissibility. These changes, largely dictated by the need to deal with cutbacks, have had a negative impact on the Department's ability to discharge its responsibilities in this area.

3.109 We noted that the Department's responsibilities are so decentralized that no one is really accountable for results. In addition, there has been very little

direction, support and oversight of activities. There are no mechanisms for ensuring the quality of decisions made abroad by the departmental physicians, and limited audit or evaluation of their activities.

3.110 We believe that serious questions need to be raised about the workload of the departmental physicians. The current organizational chart includes 11 positions at headquarters and 11 abroad. Departmental physicians at headquarters were responsible in 1999 for, among other things, policy development, supervision of overseas activities, performing around 100,000 medical assessments for North America and monitoring about 350 designated local physicians. In addition, they reviewed all negative medical decisions. In the same period, departmental physicians overseas performed over 200,000 medical assessments and supervised 800 designated local physicians located in over 160 countries. Furthermore, they

Serious questions need to be raised about the workload of the departmental physicians.

Exhibit 3.7

Key Initiatives to Review the Standards for Medical Examinations Since the Auditor General's 1990 Report

Date	Key Stages
1990	Creation of a committee composed of Department and Health Canada representatives to review inadmissibility criteria.
June 1992	The Medical Inadmissibility Review Committee recommends, among other things, that systematic screening for syphilis be discontinued and that the meaning of excessive demand on health care and social services be defined.
February 1993	Introduction of Bill C-86 to amend the *Immigration Act* by removing references to disability and stating that the meaning of excessive demand would be defined in Regulations. (This section of the Act never came into force.)
August 1993	Publication in the *Canada Gazette* of a proposed regulation on excessive demand.
August 1995	Section 22 of the Regulations dealing with excessive demand is deemed ultra vires by the Federal Court.
September 1995	Health Canada's Laboratory Centre for Disease Control sets up the Montebello project to develop a model based on scientific evidence so that it will be possible to analyze known, emerging or re-emerging contagious diseases from a migratory point of view. The United States, Great Britain and Australia take part in the project.
October 1997	Department's Policy and Operations Committee approves a proposal to draft regulations concerning excessive demand.
January 1998	The report *Not Just Numbers: A Canadian Framework for Future Immigration* recommends that the concept of excessive demand be defined by the Federal-Provincial Council on Immigration and Protection and described in the Regulations in such a way that it is transparent and objective. It adds that Health Canada, in consultation with the Department and provincial health ministers, should prescribe medical tests to identify persons who are, or are likely to be, a danger to public health or public safety.
Summer and fall of 1998	Meeting of the Federal-Provincial-Territorial Immigration Health Working Group. The Department consults the provinces on the concepts of excessive demand and danger to public health or public safety.
November 1999	Health Canada advises the Department on routine tests for syphilis and tuberculosis. Research continues on hepatitis B and HIV.

managed the occupational health and safety program for employees abroad. Exhibit 3.8 provides examples of the workload of some departmental physicians abroad.

3.111 Before the 1995 restructuring, the Department had 44 positions for departmental physicians — twice as many as now. Yet the number of files is more or less the same. In addition, four positions are now vacant; some have been vacant for over two years. Also, many of the departmental physicians could decide to retire in the very near future or to leave for other reasons. Moreover, the Department is having major difficulties attracting departmental physicians. The lack of resources threatens to compromise the Program's delivery and integrity.

3.112 Cutbacks in resources have taken into account only the activities related to medical admissibility, without regard to the resources needed by the occupational health and safety program for overseas staff. Yet the activities of that program represent an important part of the departmental physicians' responsibilities. These include meeting regularly with the staff of offices abroad and monitoring the quality of health care provided to Canadian personnel abroad. Moreover, the Department acknowledges that it is not able at present to fully discharge its responsibilities in this area.

3.113 The work of the departmental physicians requires that they have not only medical expertise but also a good understanding of the *Immigration Act*, the public health infrastructures of the countries under their responsibility, and strong management skills to supervise designated local physicians properly. We noted that the work of the departmental physicians receives little supervision. Like visa officers, physicians can be transferred regularly and they face similar difficulties with the tools and information available to them for making their decisions. Training in how to manage medical admissibility activities is inadequate and there is no transition period between the departure of one physician from an overseas office and the arrival of a successor. There is no assurance that practices are consistent.

3.114 Departmental physicians rely on the work of designated local physicians in deciding whether or not to recommend medical admissibility. Controlling the quality of their work is essential to the integrity of the process, given the high risk of fraud or bribes. There have already

Exhibit 3.8

Workload of a Departmental Physician in 1999

	Paris (one position)	Port of Spain (two positions)	Singapore (one position)
IMMIGRATION MEDICAL ASSESSMENT			
• Designated local physicians supervised	144	165	82
• Countries under his/her responsibility	55	71	34
• Medical assessments completed	33,094	17,933	23,862
OCCUPATIONAL HEALTH AND SAFETY			
• Scheduled visits to other countries	33	35	16
• Visits completed	11	31	5
• Total staff to whom health services were to be provided	1,650	706	707

Source: Citizenship and Immigration Canada

been cases where X-rays or blood samples were switched, or medical reports issued on applicants who were not examined. We are therefore concerned about the lack of rigour and consistency in the procedures for training, supervising and managing designated local physicians. In many cases, there is no regular contact between departmental physicians and the designated local physicians they supervise. Sometimes medical admissibility is even based on reports by local physicians not designated by the Department. In these circumstances, it is difficult to be sure that designated local physicians always observe procedural and professional requirements for medical examinations.

3.115 Insufficient monitoring of immigrants who require medical surveillance after arriving in Canada. Some immigrants are found to be medically admissible even though their condition presents certain problems. In these cases, the departmental physicians have found that applicants do not pose an immediate health threat to Canadians but need to be kept under medical surveillance by the appropriate authorities once in Canada. Non-active tuberculosis is a good example of such a condition.

3.116 As we noted in our September 1999 Report Chapter 14, National Health Surveillance: Diseases and Injuries, surveillance is extremely important. The success of a surveillance program depends largely on whether federal, provincial and territorial health departments and local authorities can develop partnerships, work together and share a good understanding of what must be done to prevent diseases and reduce their occurrence.

3.117 The main role of the Department in the medical surveillance program is to provide the necessary information to public health authorities. We did not look at medical surveillance activities during our audit. However, we are seriously concerned about the findings of an internal audit report released in October 1999, which concluded that the Department did not know what percentage of immigrants do not comply with medical surveillance requirements or whether provincial health authorities receive a complete list of immigrants who are to be kept under medical surveillance.

3.118 In our opinion, it is important that the Department ensure that immigrants under medical surveillance report to relevant public health authorities and thus comply with the conditions attached to their visa.

Controlling the quality of the work of designated local physicians is essential to the integrity of the process.

3.119 On the whole, it is our opinion that the Department has not adequately discharged its responsibilities in the management and monitoring of medical admissibility activities. In addition, we believe that the transfer of medical services to the Department from Health Canada did not produce the desired results. Better co-operation between the two departments is needed to ensure full compliance with the provisions of the *Immigration Act*.

3.120 The Department and Health Canada should take the necessary steps to ensure full compliance with the medical admissibility provisions of the *Immigration Act*.

Department's response: *The Department agrees with the recommendation. The Department has launched a review of the present structure and human resource issues related to medical doctors in the organization.*

The Department will seek Governor-in-Council approval of a regulatory definition of excessive demand and will continue to work with Health Canada on the issue of routine testing.

An action plan, being developed in response to the issues raised in the internal audit of medical surveillance, will be implemented in consultation with

Health Canada and the Canadian Tuberculosis Committee.

Health Canada's response: *Health Canada will work with Citizenship and Immigration Canada and other relevant departments to clarify roles and responsibilities and to review and update, as appropriate, associated memoranda of understanding for improving the management of public health risks posed by migrants entering Canada.*

Health Canada will continue to meet with key stakeholders concerned with public health risks in migrant populations and develop an action plan to strengthen joint management of those risks.

Serious constraints on ability to establish criminality and security admissibility

All applicants and their dependants aged 18 and older undergo criminality and security checks before they are granted permanent residence.

3.121 Under section 19 of the *Immigration Act*, visa officers have the authority to deny entry into Canada to anyone likely to engage in criminal activities or endanger the safety of Canadians. Applicants are inadmissible if there are reasonable grounds to believe that they have committed a criminal offence, have links with organized crime or have engaged in espionage, subversion or terrorist activities, or are likely to do so. Admission will also be denied to anyone who has committed war crimes or crimes against humanity, or is likely to commit acts of violence in Canada. Therefore, all applicants and their dependants aged 18 and older undergo criminality and security checks before they are granted permanent residence.

3.122 Canadian visa officers are responsible for determining admissibility with respect to criminality and security. To do this, they must first examine the information submitted by the applicant. Then, based on their experience and their knowledge of conditions in the applicant's country or countries of residence, they determine whether they need an in-depth investigation to make their decision. If so, they decide how to obtain the information.

3.123 The RCMP and the Canadian Security Intelligence Service (CSIS) have liaison officers at posts abroad who devote part of their time to immigration matters and assist visa officers. Some of the Department's offices have immigration control officers (see paragraph 3.93) who may also be involved in determining an applicant's admissibility.

3.124 Criminality checks consist mainly of examining the information that accompanies an application, including a police certificate from all countries where the applicant has lived for more than six months. This document certifies whether an applicant has a criminal record. Sometimes the RCMP provides visa officers with information on criminal history or other pertinent information. Also, the Department, in consultation with the RCMP, CSIS and other agencies, has developed profiles to help visa officers identify individuals who might be associated with organized crime groups. When an individual matches the profile, visa officers usually refer the case to the Department's Case Management Branch at headquarters. The Branch examines the files, investigates further — including consultation with its key partners when necessary — and makes a recommendation to the visa officer responsible for processing the application.

3.125 Security checks are based on risk assessment, and use profiles prepared by CSIS in co-operation with the Department. These profiles identify the types of people most likely to be inadmissible under the *Immigration Act* for reasons linked to espionage, subversion or terrorism. Any applicants who correspond to one of these profiles are referred by visa officers to CSIS for a check. In general, CSIS conducts additional analysis in almost 20 percent of the cases referred to it. When CSIS finds matters of concern, it raises them with the Department in the form of a written brief.

CSIS prepares an "inadmissibility brief" when it believes that the applicant is a member of the inadmissible class as described in the *Immigration Act*. When the information gathered by CSIS does not, in its opinion, meet the threshold of inadmissibility but is still a security concern, it prepares an information brief. CSIS also issues information briefs when, in the course of its investigation, it comes across matters of possible interest to the Department — for example, criminal activities or health concerns. These briefs are forwarded to the Case Management Branch, which does the necessary follow-up and provides advice to visa officers, as already noted.

3.126 Little information for determining admissibility on the basis of criminality and security. Evaluating admissibility relies primarily on the co-operation of third parties. It often depends on the good will and honesty of local police forces and, in most cases, the validity and reliability of the information they provide cannot be verified. The availability of the information is also often an issue. We found that as a result, a criminal background check is often limited to verifying whether a police certificate is attached to the application, without questioning the document's authenticity or reliability.

3.127 Frequently, information cannot be obtained because of the political or social situation in certain countries. For this reason, the Department does not require a police certificate for applicants from more than 40 countries. Almost 23 percent of applicants come from these countries. Some people are thus admitted with no assurance that they have not committed crimes abroad.

3.128 Finally, there are serious constraints on the use of certain information whose source or nature cannot be disclosed. Information obtained from CSIS often falls into this category. Paragraph 82.1(10) of the *Immigration Act* allows certain information, obtained in confidence from a foreign government or an international organization, to remain undisclosed during a judicial review. However, the Act does not protect the confidentiality of information obtained from Canadian sources, other information agencies, or other sources. And yet, protecting information sources is an essential condition of continued co-operation by partners or other stakeholders. In these circumstances, visa officers tend to avoid making negative decisions for fear of being unable to defend them in Federal Court, even when there is a reasonable suspicion that an applicant has engaged in espionage, subversion, terrorism or violence, or may do so. All of these constraints make it difficult to declare a person inadmissible. We noted that very few applicants are denied admission on the basis of security concerns. In fact, in the last five years, fewer than one percent of applicants were deemed inadmissible on this basis. Exhibit 3.9 illustrates the status of the 156 applications processed abroad that were subject to a brief from CSIS between 1996 and 1999.

3.129 Determining admissibility is a significant challenge for visa officers. Visa officers need a good knowledge of the infrastructure and social and political conditions in all countries for which an applicant has submitted a police certificate so they can assess its reliability. They also need a knowledge of fraud trends in immigration applications and organized crime to make informed decisions. However, officers have little information about conditions in countries other than where they are posted. Globalization and offshore applications (see paragraph 3.146) therefore add to the complexity and risk inherent in their work.

3.130 We noted that officers receive very little training in how to determine admissibility, use security profiles, or identify trends in organized crime.

There are serious constraints on the use of certain information whose source or nature cannot be disclosed.

We question whether what the Department expects of visa officers in the areas of criminality and security is reasonable.

Procedural manuals for security review are over 10 years old and need to be revised.

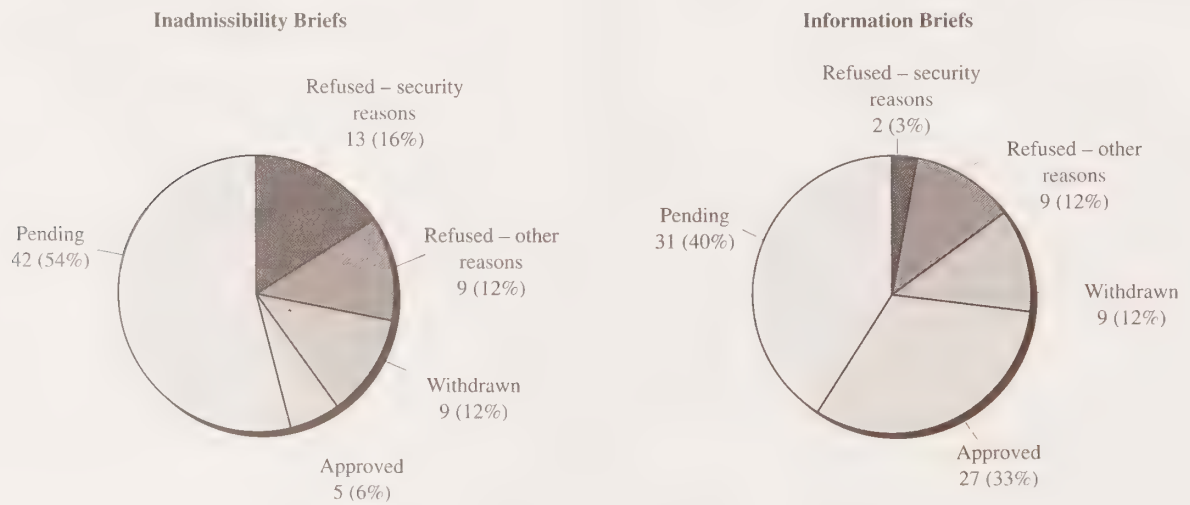
3.131 We believe that determining admissibility in the areas of criminality and security requires a high level of expertise, and we question whether what the Department expects of visa officers is reasonable. The tools at their disposal, their heavy workload, and their relatively short assignments are significant obstacles to acquiring the expertise they need to be reasonably sure their decisions are sound.

3.132 Although the immigration control officer (ICO) positions were created primarily to prevent the movement of illegal migrants to Canada, we noted their positive contribution in many cases to determining admissibility. For example, one office assigned to an ICO the responsibility for all admissibility decisions. This approach has the potential to ensure a higher level of expertise and more consistency in decision making. However, if the Department wants to officially expand the role of the ICOs to include security and criminality screening, it is important that ICOs be properly selected and trained to carry out these additional responsibilities. We noted that their assignments generally last from two to four years, and we found weaknesses in their selection, training and supervision. For instance, several ICOs are visa officers with no experience in enforcement. The basic training planned for these positions is not always offered, and it changes from year to year. Finally, the ICO's role varies from one office to another, depending on the expectations and priorities of the Immigration Program manager.

3.133 The Department could also improve the way it collects criminal intelligence. Information is presently gathered by various stakeholders but is not systematically exchanged. Since their various computer systems are not compatible, data are not always shared

Exhibit 3.9

Status of Cases Subject to a Brief From Canadian Security Intelligence Service Between 1996 and 1999*



Source: Citizenship and Immigration Canada

*Data for 1 January 1996 to 31 August 1999.

between offices and headquarters or between the Department and the RCMP and CSIS. In addition, efficiency and effectiveness could be improved if referrals to CSIS were sent electronically, as they are for applicants in Canada. The processing time for overseas referrals currently ranges from two to five months, while electronic referrals can be processed in eight days, on average.

3.134 The effectiveness of the process has not been evaluated. We noted weaknesses in the procedures used to ensure that activities for determining admissibility are effective. Among other things, offices abroad and headquarters have not established mechanisms to ensure the quality of decisions. We noted significant differences in operating methods and risk management among the offices we visited. For example, the number of cases referred to CSIS varies greatly from one office to another and from year to year, with no apparent reason. The Department has never determined that its methods for identifying persons linked to organized crime are adequate. Nor do the Department, the RCMP or CSIS know how effective the profiles they use are. The Department does not systematically inform CSIS or the RCMP of decisions on admissibility or inadmissibility made on the basis of their advice.

3.135 Government-wide and departmental responsibilities need to be reviewed. The memorandum of understanding (MOU) between the Department and the RCMP has been undergoing revision since 1986, and the MOU with CSIS goes back to 1987. However, important changes were made to the *Immigration Act* in 1993 with the adoption of Bill C–86, one purpose of which was to clarify the classes of persons who are inadmissible. The changes introduced the notion of organized crime and clarified that of terrorism. However, the roles of the parties involved in determining admissibility were not clarified. We believe they need to be reviewed to ensure compliance with the provisions of the Act. We note, for instance, that the Department, the RCMP and CSIS are all involved in the monitoring of activities related to organized crime.

3.136 In addition, the Department has not established a structure that would enable it to determine admissibility efficiently. Responsibilities for the direction, management and monitoring of the activities involved are decentralized and fragmented. For example, the Enforcement Branch is responsible for policies, while the International Region monitors the operations abroad. In addition, the Case Management Branch analyzes complex or sensitive cases and provides advice directly to visa officers. We are concerned by the lack of integration of the activities carried out by these three branches and the lack of accountability for their overall direction and effectiveness.

The Department could make gains in efficiency and effectiveness through a comprehensive strategy and better co-ordination among the organizations involved.

3.137 We believe that the Department could make gains in efficiency and effectiveness through a comprehensive strategy and better co-ordination among the organizations involved. We also believe that a structure combining all the Department's activities related to determining admissibility would be much more effective. The Department could then benefit more from initiatives to systematically collect information on security and criminality and to detect and prevent illegal immigration.

3.138 The Department should review its operating methods and its management and accountability framework for activities related to determining admissibility on the basis of criminality and security.

Department's response: *Of the options available, the Department considers the existing management structure, as it relates to issues of admissibility and criminality, appropriate to an organization whose program delivery structure spans*

the entire globe. The Assistant Deputy Minister Policy and Program Development is accountable for policy and functional guidance on admissibility determination and the Assistant Deputy Minister Operations is accountable for operational delivery of the policy. While the accountability framework is clear, the Department will review the adequacy of mechanisms for co-ordination of information and functional direction to identify whether potential exists to increase the efficiency and effectiveness of these activities.

3.139 The Department, in collaboration with the Royal Canadian Mounted Police and the Canadian Security Intelligence Service, should ensure that in determining admissibility they have the necessary tools to allow them to use information whose source or nature cannot be disclosed, while ensuring that applicants are treated fairly.

Department's response: *The Department agrees and is examining policy and legislative changes to ensure that information obtained in confidence from Canadian or foreign sources can be protected in admissibility hearings.*

Royal Canadian Mounted Police's response: *We agree.*

Canadian Security Intelligence Service's response: *Some tools are available in certain circumstances for the use of sensitive classified information in the determination of admissibility. We have also worked actively with Citizenship and Immigration Canada in its legislative review to find appropriate solutions that would facilitate the use of such information and, at the same time, ensure fairness in the determination of admissibility.*

3.140 The Department, the Royal Canadian Mounted Police and the Canadian Security Intelligence Service should consider whether the present division of responsibilities is sufficiently clear and is still relevant and effective to ensure security and public order in Canada, as provided for in the *Immigration Act*.

Department's response: *The current division of responsibilities between the Department, Canadian Security Intelligence Service and the Royal Canadian Mounted Police is derived from the legislation governing the respective agencies and is based on sound operating practices. The state of these relationships is a constructive and healthy one. The Department is actively engaged in discussion with its partners to ensure that the Memoranda of Understanding are current in light of changing environments.*

Royal Canadian Mounted Police's response: *We agree.*

Canadian Security Intelligence Service's response: *The role of the Service is well defined by its own legislation and the* Immigration Act. *The Service does recognize that policies and mechanisms to clarify and specify roles and responsibilities are tools that should be reviewed regularly to ensure that they are suited to present situations and challenges. The Service and Citizenship and Immigration Canada constantly exchange ideas for new approaches and methods to ensure the relevance and effectiveness of our screening program.*

Offshore Applications Add to Processing Difficulties

3.141 An offshore application is one that is submitted to an office abroad that does not have responsibility for the applicant's country of residence. Examples would be an application by a resident of the People's Republic of China submitted in Buffalo, or one by a resident of Russia submitted in Hong Kong.

3.142 As already noted, it is the Department's policy that immigrants can submit an application at any one of the

Department's offices abroad, regardless of where they reside. However, section 10 of the *Immigration Act* gives the Minister authority to decide where visa applications are submitted and assessed. This authority was invoked in 1998 when business immigration centres were created. But this does not preclude offshore applications, since business immigrants can submit an application to any one of the business centres, regardless of their country of residence.

3.143 The Department cites many reasons why applicants may choose not to submit their applications to offices in their country of residence or in a neighbouring country. One reason appears to be that many people try to submit their applications to offices where processing times are shorter. Others are trying to avoid a more detailed review of their application and the choice of an office abroad is often influenced by their representatives. We noted that Canadian practices in this matter differ from those in the United States. The American law is much more restrictive, and offshore applications are exceptions.

3.144 The growing number of offshore applications has been a striking phenomenon in recent years. Between 1992 and 1998, the number of offshore applications rose from 7,600 to 39,000. Offshore applications represented more than 48 percent of all the economic immigrant applications received in 1998.

3.145 Our analysis shows that the majority of these applications are submitted by residents of countries where the Department offers immigration services. For example, more than 60 percent of offshore applications in 1998 were submitted by residents of the People's Republic of China, India and Pakistan. The majority of applicants from the People's Republic of China were not submitting their applications in Beijing. Instead, they were presenting them at other offices around the world, mainly in Buffalo, Hong Kong and Singapore (see Exhibit 3.10). Consequently, a large proportion of the workload in many offices abroad involves processing offshore applications. In 1998, for example, offshore applications represented over 90 percent of applications processed by the offices in Buffalo, Hong Kong and Warsaw.

3.146 Offshore applications clearly have a negative impact on the quality and consistency of decisions. As noted earlier, visa officers must be well informed about the conditions in an applicant's country of residence to be able to make an informed decision. In particular, they must be knowledgeable about the country's statutes and regulations, its customs and practices in commercial enterprises, its educational system, and reference documents that support the application. Otherwise, they cannot readily evaluate the information provided by applicants and spot potential false declarations and fraudulent documents.

3.147 Despite the fact that many offices receive applications from residents of many countries, there is no central database on conditions in the applicants' countries of residence. It is therefore unrealistic to expect that visa officers know enough about conditions in the various countries. In processing offshore applications, they are definitely more vulnerable than those who work in offices that have responsibility for the applicant's country and who thus have more experience and expertise in the milieu.

3.148 We also noted that the processing of offshore applications is not conducive to consistency of decisions. We noted differences among certain offices of up to 40 percent in approval rates for residents of the same country.

3.149 Our survey of officers showed that about 90 percent of them believe that offshore applications have a significant negative effect on the quality of their decisions. A strong majority think they are

Exhibit 3.10

Immigration Applications for Economic Component in Some Offices Abroad (1998)

Office	Applications received*			Origin of Offshore Applications			
				Number of Countries	Principal Countries	Number of Applications	%
Buffalo	**Total**	**9,603**	**100%**				
	Applications within territory	732	8%				
	Applications offshore	8,871	92%	160	People's Republic of China	2,388	27
					India	1,126	12
					Pakistan	697	8
					England	257	3
					Others	4,403	50
					Total	8,871	100
Hong Kong	**Total**	**14,968**	**100%**				
	Applications within territory	585	4%				
	Applications offshore	14,383	96%	39	People's Republic of China	12,190	85
					Pakistan	1,053	7
					Taiwan	301	2
					India	279	2
					Others	560	4
					Total	14,383	100
London	**Total**	**6,878**	**100%**				
	Applications within territory	5,133	75%				
	Applications offshore	1,745	25%	75	India	437	25
					Pakistan	417	24
					Bangladesh	93	5
					Philippines	91	5
					Others	707	41
					Total	1,745	100
Singapore	**Total**	**1,931**	**100%**				
	Applications within territory	1,421	74%				
	Applications offshore	510	26%	32	People's Republic of China	177	35
					India	123	24
					Pakistan	84	16
					Philippines	62	12
					Others	64	13
					Total	510	100
Warsaw	**Total**	**1,577**	**100%**				
	Applications within territory	111	7%				
	Applications offshore	1,466	93%	42	Ukraine	486	33
					Albania	312	21
					Russia	287	20
					Belarus	72	5
					Others	309	21
					Total	1,466	100

* Applications within territory represent immigration applications submitted by residents of countries for which the office is responsible. Offshore applications represent immigration applications submitted to an office that is not responsible for the applicant's country of residence.

Source: Citizenship and Immigration Canada, Database of Computer-Assisted Immigration Processing System

also highly detrimental to the consistency of decisions. Moreover, they do not think they can validate the pertinent information on the application. They frequently cite offshore applications as one reason why they must often admit immigrants who they are not convinced meet the objectives of the Program.

3.150 Offshore applications mean a heavier workload for staff of offices abroad. Most of the managers we met with in offices abroad consider that visa officers have to spend more time, perhaps twice as much, processing offshore applications as applications from clients residing in the countries under their offices' responsibility. Several factors could explain this. First of all, since officers are less familiar with the documentation and know little about the statutes and regulations in offshore applicants' countries, it takes them longer to assess the applications. In addition, under a 1998 departmental directive, they have to interview most of the applicants. This directive is aimed primarily at reducing risk and ensuring more consistency in the processing of offshore applications, and it emphasizes that waiving the interview must be the exception and not the rule. Finally, officers are encouraged to consult the office responsible for the applicant's country of residence to verify the supporting documents. However, the office in the country of residence often lacks the resources to respond satisfactorily to such requests.

3.151 The concerns raised in offices abroad about their difficulties with offshore applications have been known for several years. We noted that in 1995 and 1997, some managers of offices abroad clearly reported the risks involved in processing these applications. Despite the introduction of certain measures to minimize the risks, such as creating business centres and tightening the criteria for waiving interviews, we noted that managers and visa officers still have the same concerns.

3.152 It is evident that offshore applications have significant implications for the current network of offices abroad and the Department's strategy for responding to migration flows. Among other things, it is important that the Department clarify its strategy for the processing of offshore applications from the main source countries. For example, during our visits we noted the need to review the strategy for providing immigration services in the People's Republic of China and the role of the offices in Beijing and Hong Kong.

3.153 At the end of our audit, the Department undertook to review several application issues, including offshore applications. It is now studying various approaches to processing applications. We encourage the Department to pursue these efforts. However, we expect it to rigorously analyze the benefits and risks of proposed approaches, taking into account the need for quality and consistency of decisions as well as operational efficiency and program integrity. Any model for processing applications will be effective only to the extent that the offices have the necessary skills, procedures and tools to keep risk at an acceptable level.

3.154 The Department should take the necessary action to ensure that applications are processed in the offices that have the necessary skills to make informed and consistent decisions efficiently.

Department's response: *The Department agrees on the challenges identified for offshore processing and the need to focus on program integrity. A number of redesign options and improved delivery proposals for the overseas network are presently under review and pilot projects have been launched. The objective is to provide more efficient processing without*

Visa officers frequently cite offshore applications as one reason why they must often admit immigrants who they are not convinced meet the objectives of the Program.

Any model for processing applications will be effective only to the extent that the offices have the necessary skills, procedures and tools to keep risk at an acceptable level.

sacrificing program integrity, including the need for local knowledge.

Technology Used Does Not Permit Efficient Delivery of Services Abroad

The outdated technology used in offices abroad is a serious obstacle to improving the performance of employees and activities.

3.155 In this chapter, we have already noted several opportunities for the Department to operate more efficiently. However, we think the outdated technology used in offices abroad is a serious obstacle to improving the performance of employees and activities.

Numerous efforts to upgrade the systems have failed

3.156 The information on each immigration application abroad, along with other information collected until processing is complete, is entered in the Computer Assisted Immigration Processing System (CAIPS). This system, developed in the 1980s, also allows offices abroad to exchange data with headquarters.

3.157 However, data from CAIPS do not provide all the information the visa officers need to make a decision. They need to consult various other departmental databases. Some of these systems are legacies remaining from the former departments of External Affairs and Employment and Immigration. These systems are not integrated with CAIPS, and their data cannot be shared or accessed easily from abroad. The current state of systems significantly hampers efficiency, since visa officers need to spend a lot of time gathering the information they need to process applications. Moreover, data matching and completeness are far from assured.

3.158 The Department modified its existing systems on several occasions to respond to the most pressing operational requirements, knowing that it would need a more significant project to fully resolve the problems. Following the creation of the new Department of Citizenship and Immigration in 1994 and the passage of certain legislative amendments, the Department undertook an in-depth review of its activities abroad and began to upgrade CAIPS.

3.159 In 1995, the Department revamped and reorganized activities abroad, mainly to reduce costs. Upgrading the computer systems was essential to the success of this reorganization. The upgrading project that had begun in 1994 was therefore reassessed, and it was incorporated into a larger project of the Department.

3.160 However, in 1997 the upgrade project was again re-evaluated. Based on that review, the Department concluded that the magnitude of the project carried inherent risks that were unacceptable. Among the major risk areas were complexity and scope, security, transition and conversion. The Department also noted that it needed $160 million to complete the project but had only $72 million available. For these reasons, the project was scaled back in March 1997 after $60 million had been spent. Certain initiatives continued until March 1999 at an additional cost of $18.7 million.

3.161 In late 1999, the Department launched another systems upgrade project. It justified the project with almost the same arguments used in 1994. It noted that the level of obsolescence, redundancy and unplanned complexity of its existing collection of case management systems place the Department in a position of serious business risk. It also noted that without the new system it would not be able to attain its service delivery goals or effectively ensure the Program's integrity.

The Department needs to bear in mind the reasons why the earlier projects failed and to manage this project more carefully.

3.162 The scope of the current project is considerable: preliminary figures indicate an investment of approximately $194 million and an expected time to completion of about five years. Realism and caution are essential. The Department needs to bear in mind the reasons why the

earlier projects failed and to manage this project more carefully.

Offices abroad are buried in paperwork

3.163 We noted in 1990 that the Department was missing opportunities to cut down on paperwork and administrative tasks. Ten years later, this observation is still current. In fact, during our audit we noted that offices abroad are flooded with forms, files, faxes and other documents.

3.164 Employees in offices abroad spend a great deal of their time receiving and recording data for immigration applications, archiving files, handling correspondence, collecting and reimbursing fees for processing applications and granting rights of landing, and handling and controlling visa forms. In a 1995 report, the Department estimated that two thirds of the time spent processing an immigration application in an office abroad was devoted to these administrative tasks and only one third to deciding on the application. Significant resources abroad are used in tasks that add little value.

3.165 It is crucial that the Department review this situation as soon as possible and identify opportunities to improve productivity by using more appropriate technology. Among other things, electronic filing of applications would free many of the resources presently used to record data from application forms into CAIPS. Further, the use of credit cards and direct deposits and payments could significantly improve the efficiency of revenue processing and reduce the risks related to these activities. Overall, we believe that there is a high potential to improve efficiency in these areas.

3.166 The Department should review its systems and practices with a view to maximizing the efficiency of its operations and the use of its resources.

Department's response: *Many successes were realized as a result of the Systems Modernization program, including major upgrades to the Department's Information Technology (IT) infrastructure, improvements to overseas and domestic systems, new case-processing centres, and new domestic call centres. Investments were made to ready our IT systems for year 2000. Projects currently under way or in the planning stages will afford additional short-term relief by providing better integration between overseas and Canada, passport readers at missions abroad, and a secure Permanent Resident Card.*

Information technology is integral to Department's program delivery and the department recognizes that enhancements to our IT systems and infrastructure will significantly improve our ability to do business, both in terms of increased program integrity and better client service. The Department is committed to the development of a Global Case Management System (GCMS) that will provide an integrated set of applications and infrastructure components to support all of Department's client case management operations.

Department Highly Vulnerable to Fraud and Other Irregularities

3.167 Conducting immigration activities abroad entails high risks. Large amounts of money are handled, the forms on hand are worth a great deal on the black market, and the computer systems contain very sensitive information. We noted that the Department regularly has to investigate complaints and allegations of complicity, favouritism, theft of public funds, solicitation, and theft of visas. It is thus important that management have in place solid controls to safeguard its assets and ensure that its operations are run properly.

3.168 Our audit attempted to determine whether such a control environment exists for revenues, immigration visas and computer systems. On the whole, we found that the controls for prevention and

early detection of errors and fraud are inadequate. We therefore believe the Department is particularly vulnerable to fraud and other irregularities.

3.169 The Department is responsible for establishing policies and procedures for revenue control, security of visa forms and the secured storage of immigration-related information. In each office abroad, the Department assigns to visa officers various responsibilities for controls. Hence, one officer may deal with revenue collection, another with control of documents and another with systems management. We note that these are daily responsibilities beyond the main function of visa officers: to decide on admissibility and selection of immigrants. The Department of Foreign Affairs and International Trade (DFAIT) also has some responsibilities in these areas. According to a 1992 Memorandum of Understanding between the two departments, DFAIT is responsible for security compliance inspections of policies and procedures dealing with immigration forms and immigration-related information in offices abroad. It is also responsible for providing accounting services, including cash receipt and deposit facilities.

In 1998–99, the Department collected about $214 million at offices abroad.

Revenue control is inadequate

3.170 In 1998–99, the Department collected $347 million in fees for processing immigrant or visitor applications and granting rights of landing. Nearly 62 percent of these fees, about $214 million, are collected at offices abroad.

3.171 One of the significant weaknesses in revenue control is the Department's inability to reconcile accounts, that is, to verify that the number of visas issued corresponds to the fee amounts collected for them. In offices abroad, cash receipts are recorded using cash registers or POS+, a customized computer system. Neither of these methods is linked to the Computer Assisted Immigration Processing System (CAIPS), which controls immigration applications and issuing of visas.

3.172 We also found that the controls in the POS+ system are weak, and data can be altered without leaving an audit trail.

3.173 A number of visa officers with revenue collection responsibilities said they lack the skills to perform certain monitoring duties, such as prevention and detection of abuse or fraud. In a 1996 report, the Department's internal auditors stressed the need for a centre to provide opinions, advice and direction on revenue control to offices abroad. However, no action on this has been taken. We also found that there is no systematic monitoring of revenue collection activities. We were thus not surprised to find during our visits that operating procedures and the rigour of controls varied considerably from office to office. We believe that the Department's Finance and Administration Branch and its International Region Branch and DFAIT need to work together more closely to ensure an appropriate framework for revenue control and management. Finally, in light of existing control weaknesses and high risks of error and fraud in offices abroad, we think internal audits are needed more often.

Visa form control needs to be improved

3.174 Visa form control is an essential measure to guard against abuse. Illegal immigration is a growing phenomenon and visas are now worth several thousand dollars on the black market. The Department's Office of Professional Conduct reported that in cases under investigation in 1998, an estimated 500 visas were missing or stolen.

3.175 During our visits we examined the procedures followed by the visa officers responsible for control of these documents. In general, the control procedures appear to be adequate but there is no way to ensure that they are applied in a uniform and consistent way. We noted

that the quality of control depends on the officer responsible or on the level of involvement and monitoring by the manager of the office. As with revenue control, we found that control procedures and rigour in applying them differ from one office to another. Given the high risks, it appears that not enough internal audits are conducted in this area.

3.176 Finally, the Immigrant Visa and Record of Landing document (immigration form IMM1000), once approved by an immigration officer at the port of entry, attests that the applicant has received permanent resident status and allows the individual to enter Canada. This form is outdated and no longer meets current needs. It is a lengthy form, with no photo of the holder, and it is easy to falsify. This is why forgers and people-smugglers are so eager to get their hands on it. We believe that such an unsecured document significantly weakens the effectiveness of control over illegal immigration. We expressed our concerns about this to the Department in our 1990 Report. The Department's various study reports have also raised several concerns about this form.

Computer systems are not adequately protected

3.177 We also examined the control environment for the security of computer systems, that is, protection of data and access to them. The visa officer responsible for systems management is required to ensure that systems operate properly and are secure. This is an extremely important task, since unauthorized access to the systems and to the information they contain may, for example, make it easier for inadmissible persons or illegal immigrants to enter Canada. It can also permit confidential information to be communicated, altered or destroyed. Ensuring that computer security is adequate requires clear and effective rules on access and use, and stringent monitoring of compliance with those rules. We have serious concerns about the level of security in all the offices abroad that we visited.

3.178 Although the officers who manage computer systems abroad are fairly competent users of the systems, they do not have all the expertise needed to ensure effective computer security and control. In view of this, we were surprised by the lack of monitoring of their activities. Our observations and those of internal audit indicate that certain established rules are not being followed. Among other things, staff who are not authorized to do so can print visas and make decisions. Moreover, others appear on the list of authorized officers when they are no longer on staff at an office abroad. Finally, in many cases officers do not systematically monitor unauthorized attempts to access systems.

We have serious concerns about the level of computer security in all the offices abroad that we visited.

3.179 The Department needs to monitor how these officers are fulfilling their responsibilities. It needs to know to what extent the rules are not being followed. However, there are practically no internal audits or security audits in this area, notwithstanding a Treasury Board directive requiring that comprehensive security audits be conducted at least once every five years.

Resources allocated to evaluation and internal audit are clearly insufficient

3.180 Internal audit and evaluation are an essential part of frameworks for control and performance measurement. The Corporate Review Unit carries out these activities for all of the Department's activities in Canada and abroad. The job is a considerable one. Moreover, as discussed in this chapter, the risks inherent in immigration operations abroad are significant and there are numerous requirements the Act imposes on the treatment of applications. It is thus important that the Unit have the necessary means to carry out the various aspects of its role. Particularly important are deterring fraud and other irregularities and

providing senior management with reasonable assurance that activities are carried out efficiently and effectively and in accordance with operational instructions and the Act.

3.181 We noted that the resources allocated to these activities were cut significantly when the various functions were reorganized under the new Department of Citizenship and Immigration, and again as a result of Program Review. In 1999 the Department allocated five full-time positions to the Unit and a budget of about $800,000 for professional service contracts. However, the Unit has been unable to fill all the positions and has had no more than three employees at any given time over the course of the year. Two positions were still being staffed at the end of 1999.

3.182 In our view, the Corporate Review Unit's resources are clearly insufficient for it to carry out its role in the Department. Moreover, as we describe in the next section, its lack of resources seriously limits the Department's capacity to measure the performance of the Immigration Program. Given the significant weaknesses we noted during our audit, we have serious questions about the priority the Department places on this important function.

3.183 The Department should:

- **review, in collaboration with the Department of Foreign Affairs and International Trade, the mechanisms for the control of revenues, visa forms and computer systems to ensure that they provide a reasonable level of protection against fraud and other irregularities; and**

- **strengthen the role of internal audit throughout the organization.**

Department's response: *The Department is presently updating the Cost Recovery and Key Document Management manual for overseas missions to improve visa officers' knowledge of internal controls over revenue and key documents. A training needs analysis is being finalized in order to improve the tools available overseas. The computer system supporting the cost recovery function has recently been upgraded to network installation to increase security over transaction processing. Furthermore, the Department is examining the replacement of this system to increase revenue controls.*

The Department also intends to make use of credit/debit cards in its missions abroad and has already started discussions with its partners in this regard. The Department will also investigate other banking options that may also provide for an improved security and efficiency of its revenue management processes.

A new Permanent Resident Card has been designed to replace the IMM1000 and is awaiting implementation, subject to funding. In 2000–01, the Department will conduct a security audit to strengthen and ensure compliance of our systems' security guidelines.

The Department agrees with the need for additional capacity for internal audit throughout the organization and is committed to strengthening this function in the 2000–01 fiscal year.

Foreign Affairs and International Trade's response: *The Department fully agrees with the need for a review of certain control procedures to minimize the risk of fraud and other malfeasance at our missions abroad. Financial review, including a review of revenue control procedures, is a standard audit item when our internal audits are carried out at missions. As well, all Mission Administrative Officers are given fraud awareness training before they are sent on an overseas assignment and the briefings for all new Heads of Mission also include this subject.*

A Need to Measure Results and Report Them to Parliament and the Public

3.184 Performance measurement and evaluation help organizations improve the way they monitor and manage their key activities. They enable management to identify what has worked and what has not, and whether its systems and resources are focussed on the areas of greatest risk. At the same time, they generate information that enables organizations to report to the public on the effectiveness of their activities.

Department focusses performance measurement on meeting immigration levels

3.185 Performance measurement consists of the ongoing review of activities and their results. It makes it possible to measure progress toward objectives. Performance indicators are the key to such measurement. We expected to find a complete range of indicators used to measure the performance of offices abroad. However, this is not the case. The Department's performance indicators are focussed primarily on meeting immigration levels. For instance, as we have already noted, the Department needs better information on the use of resources and on the quality and uniformity of selection and admissibility decisions.

3.186 Whereas performance measurement is an ongoing review, program evaluation is a periodic review. The Department can use program evaluation to measure the effectiveness of its activities in selecting immigrants under the various categories of the economic component and determining their admissibility.

3.187 We have noted that the skilled worker class in the Immigration Program was evaluated in 1998, and the report showed the strengths and weaknesses of the present selection criteria. The evaluation relied primarily on the Department's database, which can be used to compare certain characteristics of immigrants when they arrive in Canada with information in a database on the economic performance of immigrants, maintained by Statistics Canada on behalf of the Department. Among other things, the evaluation report looks at how immigrants' level of education or language knowledge when they apply is linked to their economic situation later on.

3.188 However, the evaluation efforts are not sufficient. Moreover, the last program evaluations of the business component (investors, entrepreneurs and self-employed workers) date back to the early 1990s. It would be interesting to use databases such as the one mentioned in the preceding paragraph in evaluating the business component. Although medical examination activities were evaluated in 1995, the scope of the evaluation was limited. In fact, the aspects that dealt with the effectiveness of the medical examination and immigrants' use of health care services in Canada were both abandoned. We have already noted that activities to determine criminal and security-related admissibility have never been evaluated (paragraph 3.134).

3.189 Finally, we believe that the lack of clarity of roles and responsibilities is a significant obstacle to performance measurement. Clarity is essential to define expectations, ensure adequate direction and monitoring of activities, and provide a complete report on the results that are achieved. We have already noted the need for the Department to clarify roles and responsibilities within the organization and with its federal partners, such as Health Canada, the RCMP, CSIS and DFAIT. In fact, given the current operational challenges and the recent major changes to the network of offices abroad, the Department needs to review the division of roles and responsibilities of all stakeholders to ensure that they meet

The Department needs better information on the use of resources and on the quality and uniformity of selection and admissibility decisions.

its needs for support to immigration activities abroad.

The information provided to parliamentarians is limited

3.190 We expected that the Department would provide Parliament with a complete report on the effectiveness of the criteria used in selecting and determining the admissibility of economic immigrants. We examined the Department's Report on Plans and Priorities and its Performance Report for recent years. We noted that the data they present focus mainly on volumes of activities and related outputs. We believe these documents would be of much greater use if they included information on outcomes. For example, for economic immigrants this could include indicators of their integration into Canadian society — the extent to which they are employed, contribute to our tax system or depend on social programs.

Both policy and administrative actions are required to address the issues raised in this chapter, and choices need to be made.

3.191 The Department should improve its measurement of performance in key activities and its communication of the results.

Department's response: *The Department has focussed in particular on data integrity issues and has established a data warehouse to facilitate the monitoring, analysis and reporting of program outputs, using consistent and reliable information. However, further efforts have been seriously constrained to date by the year 2000 priority and other resource issues. In addition, because of resource constraints, evaluation frameworks developed by the Department to assist in examining outcomes remain to be implemented.*

Nonetheless, the Department has made considerable progress in using its longitudinal database on immigrant economic performance, with partner departments and the provinces, to research the economic outcomes of immigrants and to conduct research on the new selection criteria and support other policy initiatives. The Metropolis Project has also contributed to improved information on program outcomes. Thus, while improvements have been made, further progress in this area will be dependent on additional resources and improved information technologies.

Conclusion

3.192 We observed deficiencies in the management and delivery of the economic component of the Canadian Immigration Program that, taken together, lead us to conclude that the Program's integrity is seriously at risk. We also noted several opportunities to improve efficiency and effectiveness in application processing. Given the similarities between operating methods and mechanisms for delivering all aspects of the Program abroad, we believe that many of the weaknesses we noted apply to other components of the Program, such as the family class and visitors. It is highly questionable whether the Department can handle the number of applications involved in meeting the annual immigration levels set by the government and, at the same time, maintain the quality of decisions and the Program's integrity at an acceptable level and ensure compliance with the *Immigration Act*. We believe that the deficiencies we noted could seriously limit the Department's ability to maximize the economic and social benefits that immigration affords, and to offer Canadians the level of protection contemplated by the Act.

3.193 Moreover, it is disappointing to note that several of the deficiencies discussed in this chapter are very similar to those we noted in 1990. The government and the Department have undertaken a number of initiatives to remedy those problems but have not produced the desired results.

3.194 This situation requires immediate attention. Both policy and administrative actions are required to address the issues raised in this chapter, and choices need to

be made. On the one hand, a significant investment of resources may be needed to correct the deficiencies we noted, and to allow the Department to realize the potential efficiency gains we identified. It is particularly essential to ensure a proper balance between the resources allocated to the Department and the workload of carrying out the tasks required to meet the annual immigration levels set by the government. On the other hand, many of the deficiencies we noted indicate that more rigour is needed in the overall management of activities both at headquarters and abroad. Efforts to meet immigration levels cannot be allowed to compromise the quality of decisions and the integrity of the Program.

3.195 Weaknesses in the Department's performance management and control frameworks have certainly contributed to the difficulties in the present system. In addition, the absence of a position on certain issues such as medical admissibility has hampered the Department's ability to fulfil its responsibilities. Finally, the Department's tolerance of abuses by certain applicants has had the effect of weakening its control over the Program, and has resulted in the adoption of certain practices whose efficiency and effectiveness are seriously questioned today.

3.196 As part of its major review of the Act, the Department has undertaken initiatives that provide an excellent opportunity to correct many of the deficiencies we identified in the management and delivery of the program. This chapter makes suggestions that could help the Department guide its future choices. It is essential that it base its analysis of options and its choices of solutions on a solid understanding of the risks and challenges it faces. It also needs a solid understanding of the essential conditions that must be met if the Program is to fully meet legislative requirements and Canadians' expectations.

3.197 However, the challenge is enormous and complex. We believe the Department would be well advised to develop an action plan setting out the main tasks, timetables and resource requirements, and clearly establishing responsibility for results within the Department and among its various partners.

3.198 An important role for parliamentarians. Since Parliament has expressed a particular interest in the Program by requiring the tabling of an annual immigration plan, parliamentarians and the appropriate parliamentary committees may want to follow the situation closely. They may want to require that the Department prepare an action plan and monitor the Department's progress. They may want to ensure that any necessary legislative amendments are made in a timely manner and address the areas of major concern. Finally, they may want to review the annual immigration plan to ensure a proper balance between established immigration levels and the Department's capacity to attain them.

Parliamentarians and the appropriate parliamentary committees may want to follow the situation closely.

Department's overall response: *As noted in the chapter, since 1990 there have been significant changes in how the government has organized its responsibilities for immigration, refugee and citizenship policies and programs, including creation of the new department of Citizenship and Immigration Canada. As well, Program Review resulted in further restructuring arising from a 20 percent reduction to the Department's resource base. Since 1990, the immigration and refugee programs have also faced significant policy, program and operational challenges, resulting from a rapidly changing international environment arising from globalization, the emergence of new technologies, changing political, economic and trade alliances. All of these have affected the legal and illegal movements globally of immigrants, refugees, temporary workers and visitors. This has required the Department to*

manage its programs in an increasingly complex environment: with sustained high immigration from less-developed source countries; pressures on our borders from individuals seeking a better life; the emergence of sophisticated international people-smuggling and trafficking (often involving transnational organized crime), and new initiatives to address war crimes. Meeting these challenges has required innovative ways of managing our business, developing new partnerships with provinces, non-governmental organizations and like-minded countries.

Despite these challenges, the Department has delivered over one and a half million new immigrants and refugees since 1992. It has delivered visitor, student and temporary worker visas, which have increased in volume by more than 25 percent over the same timeframe, with student visas alone up 67 percent. The Department also created the Immigration Control Officers network to provide international leadership in responding to people smuggling and, in just the past year, the Department responded quickly and effectively to both the Kosovo crisis and irregular marine arrivals in British Columbia.

In short, the Department has strategically used its scarce resources, taking into account competing policy and operational priorities as well as risks to program integrity. It has also streamlined its operational delivery network and business processes to better allocate existing resources, seeking separate funding for new initiatives. The most recent federal Budget identified $60 million (over three years) for processing immigrants, which will significantly enhance client service. In addition, the annual permanent increase to our base budget of $48.6 million to improve essential public services will assist in meeting other needs. While considerable progress has been made and many successes delivered, the Department still faces significant challenges, as outlined in this chapter, and is committed to addressing the recommendations.

About the Audit

Objective

The objective of our audit was to determine whether Citizenship and Immigration Canada is managing the economic component of the Canadian Immigration Program efficiently and effectively, in a way that fosters the achievement of desired results and maintains the fairness and integrity of the Canadian immigration system.

Scope and Approach

We examined four important sectors of the economic component: the strategic framework and overall direction; program objectives and evaluation of results; service delivery abroad; and reporting on performance. Quebec's selection of immigrants falls outside federal jurisdiction and was not covered in our audit.

We met with representatives of Citizenship and Immigration Canada, both at headquarters and in offices abroad. We visited nine immigration offices: Beijing, Buffalo, Hong Kong, London, Manila, Moscow, New York, Paris and Rabat. Our examination consisted mainly of conducting interviews with staff, reviewing application files, consulting management documents and audit reports, and analyzing databases. In addition, we surveyed all visa officers and Immigration Program managers. By 1 December 1999, 229 people had responded to the survey questionnaire. The overall response rate was therefore 60 percent. Finally, we obtained additional information from the Department of Foreign Affairs and International Trade, Human Resources Development Canada, the Royal Canadian Mounted Police, the Canadian Security Intelligence Service and Health Canada.

Criteria

We expected:

- the roles and responsibilities within the federal government to be established in a way to facilitate efficient and effective management of the Canadian Immigration Program;
- the organization of activities and the allocation of resources to take into account inherent risks and to encourage the attainment of immigration levels in an economical and efficient way while maintaining the Program's integrity;
- the objectives of the economic component to be clearly set out and the selection criteria to be conducive to meeting those objectives;
- mechanisms in place to ensure the quality of decisions and the Program's integrity;
- a control framework to protect the main assets;
- management practices to make it possible to monitor the Department's performance carefully; and
- information intended for Parliament to be relevant, reliable and complete.

Audit Team

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Appendix A

Network of Offices Abroad

The 81 offices abroad include the following:

- 9 Regional Program Centres (RPCs)
- 20 RPC satellite offices
- 26 full-service centres
- 7 specialized offices
- 19 other information offices

RPCs, satellite offices and full-service centres provide services to immigrants and non-immigrants (visitors, temporary workers and students). RPCs work together with satellite offices, which provide information requested by the RPCs and, in some cases, finalize applications. Specialized offices deal mainly with illegal immigration and refugees. The following table presents a list of Citizenship and Immigration Canada offices abroad, by geographic region and by type of office.

Other information offices not listed below are offices where employees of the Department of Foreign Affairs and International Trade provide answers to certain information requests.

Types of Office	The Americas	Europe	Africa — Middle East	Asia — Pacific
Regional Program Centres (RPCs)	**Buffalo ***	**London***	**Accra**	**Manila**
	Detroit	Abu Dhabi	Abidjan	Seoul*
	Los Angeles			Tokyo
	New York **	**Paris***	**Damascus***	
Satellites	Seattle **	Rabat	Amman	**Singapore***
		Rome	Beirut	Bangkok
		Tunis	Tehran	Dhaka
				Djakarta
		Vienna		Taipei
		Prague		
				Beijing*
				Shanghai
Full-Service Centres	Bogota	Ankara	Cairo	Colombo
	Buenos Aires **	Belgrade	Nairobi	Hong Kong*
	Guatemala	Bonn*	Pretoria	Islamabad
	Havana	Bucharest	Tel Aviv	New Delhi
	Kingston	Kiev		Sydney
	Lima	Moscow **		
	Mexico City	Warsaw		
	Port-au-Prince			
	Port of Spain			
	Sao Paulo			
Specialized Offices	Caracas	Geneva		Canberra
	Miami	The Hague		
	Washington	(Specialized satellite		
	Santiago	of Bonn)		

*Nine offices, designated Business Immigration Centres, deal with immigration applications of investors, entrepreneurs and self-employed.

**After initial review, Business Immigration Centres have the option of forwarding business applications to one of the four visa offices for interview and finalization.

Source : Citizenship and Immigration Canada

Appendix B

Data on the Profile of Immigrants in the Economic Component, 1998

	Skilled Workers		Business	
	Number	%	Number	%
Principal Applicants and Dependants				
Principal Applicants	35,867	44	3,814	28
Dependants	45,279	56	9,964	72
Total	**81,146**	**100**	**13,778**	**100**
Census Area (Principal Applicants)				
Toronto	16,914	47	917	24
Vancouver	6,632	18	1,071	28
Montreal	3,881	11	921	24
Other/Elsewhere in Canada	8,440	24	905	24
Total	**35,867**	**100**	**3,814**	**100**
Age (Principal Applicants and Dependants)				
0 to 14 years	20,772	26	3,662	27
15 to 24 years	6,657	8	2,876	21
25 to 44 years	48,233	59	4,357	32
45 to 64 years	5,353	7	2,820	20
65 years or more	131	0	63	0
Total	**81,146**	**100**	**13,778**	**100**
Education (Principal Applicants)				
0 to 9 years of schooling	645	2	430	11
10 to 12 years of schooling	1,446	4	1,053	28
13 or more years of schooling	1,500	4	303	8
Trade certificate	2,981	8	486	13
Non-university diploma	3,469	10	458	12
Bachelor's degree	17,925	50	866	23
Master's degree	6,142	17	167	4
Doctorate	1,737	5	51	1
Total	**35,845**	**100**	**3,814**	**100**
Language Ability (Principal Applicants)				
English	26,603	74	1,538	40
French	2,104	6	132	3
Both French and English	3,535	10	105	3
Neither	3,625	10	2,039	54
Total	**35,867**	**100**	**3,814**	**100**

Source: Citizenship and Immigration Canada, *Facts and Figures 1998*

Appendix C

Selection Criteria for Immigrants in the Economic Component

Skilled Workers

- A skilled worker is an independent immigrant, meaning an individual who has competencies in a trade or profession, experience and personal qualities that meet Canadian selection criteria. They are assessed against the following criteria:

Factor	Points (Minimum of 70 points)
Education	16
Employment training	18
Experience (Zero (0) units of assessment are a bar to further processing unless the applicant has arranged employment approved by the National Employment Service in Canada and has a written statement from the proposed employer verifying that he or she is willing to employ an inexperienced person in this position.)	8
Occupation (Zero (0) units of assessment are a bar to further processing)	10
Arranged employment or designated occupation	10
Demographic factor	10
Age	10
Knowledge of English and French	15
Personal suitability	10
Assisted relative	5

Business Class

During the selection process, officers first assess whether the applicant meets the definition. Then they assess the applicant using a point system based on a certain number of factors that measure the applicant's capacity to get established successfully.

Investors

- Investors must have successfully operated, controlled, or directed a business, and have accumulated through their own efforts a net worth of at least $800,000. The applicant will be required to make a minimum investment of $400,000, paid to the Receiver General for Canada. The investment is subsequently allocated to participating provinces and territories in Canada. These governments use the funds for job creation and economic development.

Factor	Points (Minimum of 25 points)
Education	16
Employment training	18
Experience	8
Demographic factor	10
Age	10
Knowledge of English and French	15
Personal suitability	10

Entrepreneurs

- Entrepreneurs must have the intent and ability to establish, purchase or make a substantial investment in a business in Canada that will contribute significantly to the economy and create jobs. The business must employ at least one Canadian citizen or permanent resident other than the entrepreneur and his/her dependants. The entrepreneur must be actively involved in managing the business. Entrepreneurs and their dependants are admitted to Canada under the "terms and conditions" that they establish and actively manage a business in Canada within two years of arrival.

Factor	Points (Minimum of 25 points)
Education	12
Employment training	15
Experience (Zero (0) units of assessment are a bar to further processing)	8
Demographic factor	10
Age	10
Knowledge of English and French	15
Personal suitability	10

Self-Employed

- Self-employed immigrants must establish or purchase a business in Canada that will keep them employed and contribute significantly to Canada's economy or cultural or artistic life.

Factor	Points (Minimum of 40 points)
Education	16
Employment training	18
Experience (Zero (0) units of assessment are a bar to further processing)	8
Occupation	10
Demographic factor	10
Age	10
Knowledge of English and French	15
Personal suitability	10

Source: Citizenship and Immigration Canada

Appendix D

List of Principal Studies on the Economic Component Since 1985

	Economic Component
1987	*Economic Consideration for 1988–1990 Selected Immigrant Worker Level*, Policy and Program Development Branch, Ottawa, Employment and Immigration Canada.
1989	*Immigrant Settlement Indicators: A Feasibility Study*, Ottawa-Hull, Policy Analysis Directorate, Immigration Policy Branch, Employment and Immigration Canada.
1995	*Economic Impact of Recent Immigration*, Ottawa, Standing Committee on Citizenship and Immigration.
1997	*Not Just Numbers: A Canadian Framework for Future Immigration*, Ottawa, Immigration Legislative Review.
	Skilled Workers
1986	*Determining the Occupational Composition of the Selected Immigrant Worker Category*, Ottawa, Labour Market Outlook and Structural Analysis, Strategic Policy and Planning, Employment and Immigration Canada.
1998	*Towards a New Model of Selection — Current Selection Criteria: Indicators of Successful Establishment?*, Ottawa, Economic Policy and Programs Division, Employment and Immigration Canada.
	Business Class
	Investors
1992	*The Ministerial Task Force on Immigrant Investor Program: A Discussion Document*, Ottawa, Employment and Immigration Canada.
1992	*Interim Report: The Immigrant Investor Program*, Ottawa, Standing Committee on Labour, Employment and Immigration.
1995	*Refocusing the Immigrant Investor Program*, Ottawa, Immigrant Investor Program Advisory Panel, Industry Canada.
	Entrepreneurs
1985	*The Canadian Entrepreneurial Immigrant Program: A Policy Approach*, William L. Marr, Department of Economics, Wilfred Laurier University.
1987	*The Economic Impact of the Entrepreneur Immigrant Program*, Alan Nash, Institute for Research on Public Policy, Ottawa.

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Report of the Auditor General of Canada to the House of Commons

Chapter 4
Indian and Northern Affairs Canada – Elementary and Secondary Education

April 2000

Report of the Auditor General of Canada to the House of Commons

Chapter 4
Indian and Northern Affairs Canada –
Elementary and Secondary Education

April 2000

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Chapter 4

Indian and Northern Affairs Canada

Elementary and Secondary Education

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.

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Indian and Northern Affairs Canada

Elementary and Secondary Education

Main Points

4.1 Indian and Northern Affairs Canada cannot demonstrate that it meets its stated objective to assist First Nations students living on reserves in achieving their educational needs and aspirations. For example, the Department does not have the necessary assurance that First Nations students are receiving culturally appropriate education. Moreover, the progress in closing the education gap for Indian students living on reserves has been unacceptably slow. At the current rate of progress, it will take over 20 years for them to reach parity in academic achievement with other Canadians.

4.2 To obtain assurance and effectively discharge its responsibilities, the Department needs to resolve several major issues. These include the need to articulate its role in education, to develop and use appropriate performance measures and to improve operational performance. In addressing these issues, the Department will need to further take into account the cultural and special needs of Indian students as well as socio-economic factors that can affect success in education.

4.3 The situation is complex and urgent, and the urgency will increase as more demands are placed on education as a result of an increasing population on reserves, and changes in technology and in provincial education programs upon which the Department relies. Although the Department has identified or started several projects for education reform, it must still respond with significant action to resolve these issues.

Background and other observations

4.4 The Department is empowered to take an active role in the provision of elementary and secondary education for Indian children living on reserves. Although it has chosen to rely on First Nations and the provinces for the design and delivery of appropriate education, the Department acknowledges that this approach does not diminish its responsibility and accountability.

4.5 For more than 100 years, various statutes, Indian treaties and government policies have shaped the mandate and responsibilities of Indian and Northern Affairs Canada for education.

4.6 Presently, about 117,000 students enrolled in elementary and secondary schools live on reserves. Current budgeted costs, not including school construction and maintenance, are about $1 billion annually.

Indian and Northern Affairs Canada acknowledges the importance of the issues identified in this chapter. It believes that Gathering Strength — Canada's Aboriginal Action Plan, and other planned education initiatives involving the Department, First Nations and provincial governments, will help close the education gap cited in this chapter.

Introduction

4.7 Indian and Northern Affairs Canada allocates about $1 billion annually for elementary and secondary education for Indian children living on reserves. This money, which does not include capital items, is distributed through various funding arrangements with First Nations and provinces. Expenditures for elementary and secondary education are among the largest departmental allocation to a single program, about 21 percent of budgetary funding in the Department. Exhibit 4.1 sets out budgetary estimates for 1999–2000.

4.8 About 69,000 Indian students (59 percent) are enrolled in Indian-managed schools on reserves. An additional 46,000 Indian students living on reserves (39 percent) are enrolled in provincial schools. Approximately 1,700 students are enrolled in federal schools.

4.9 Although some progress has been noted in recent years, the record of educational achievement for Indian students living on reserves continues to be much worse than that of other Canadians. Exhibit 4.2 presents some comparative information on education.

Evolution of education for Canadian Indians

4.10 Education for Indians by non-Indians began during the colonization of North America in the 1600s. At that time, the mission school was the institution of learning. It was eventually replaced by larger, more centralized residential schools that began to appear during the first half of the 1800s.

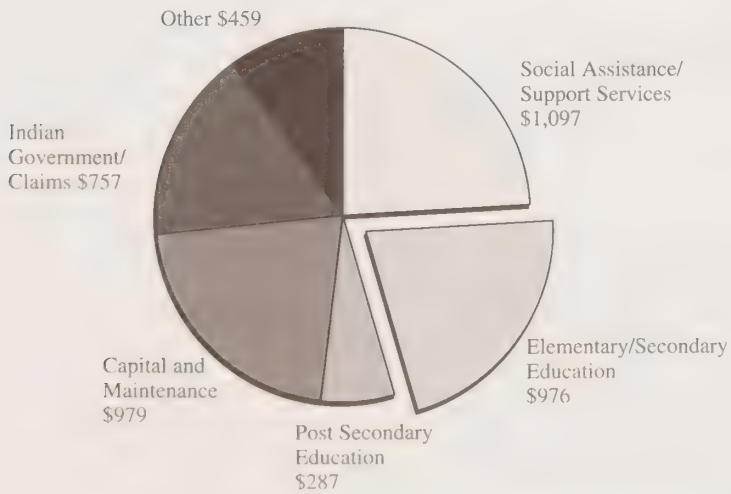
4.11 Beginning in the 1950s, the federal government was under pressure to respond to the growing dissatisfaction voiced by First Nations leaders over the inappropriateness of education provided by residential and mission schools. Until then, the Department had taken responsibility for the direct delivery of services to First Nations communities. These services included the delivery of education to Indian students through federal elementary and secondary schools on Indian reserves. They were supplemented by off-reserve provincial schools where, in the government's view, federal schools on reserves were not warranted or where such facilities were insufficient to meet the educational needs.

4.12 The federal government viewed the integration of Indian students into the provincial school system as a solution to problems related to school curricula,

Exhibit 4.1

**Indian and Northern Affairs Canada
Budgetary Estimates for 1999–2000**

$ Millions



Source: Indian and Northern Affairs Canada

teacher qualifications, school buildings and other issues associated with previous approaches. This process involved tuition agreements and other arrangements with the provinces to defray the costs of educating First Nations students who attended provincial schools.

4.13 Over time, a system of contribution arrangements for program devolution to First Nations was developed. By the late 1970s, program devolution was maturing together with evolving terms and conditions for First Nations delivery of departmental programs. Today, the Department accepts provincial education standards and relies on their application to provide Indian students living on reserves with comparable programs, whether they are enrolled in Indian, provincial or federal schools.

The Department's mandate and responsibilities for education stem from statutes, treaties, agreements and policy.

4.14 The transfer of authority for managing and operating federal schools has continued; as of 1998, there were 466 schools under First Nations management and only eight federal schools managed by the Department. The Department continues to fund education under various arrangements for Indian students living on reserves who attend Indian, provincial and federal schools (see Exhibit 4.3).

Exhibit 4.2

Comparative Information on Education

	Indians	All Canadians
	percentage	
Students eligible to attend elementary and secondary schools who are not enrolled	20	N/A
Drop-out rate before completion of grade nine	18	3
Youth between 18 and 20 who left school	40	16
Youth between 18 and 20 who graduated	30	63
Population with at least high school education	37*	65

* on-reserve

N/A – not available

Sources: Indian and Northern Affairs Canada and Sub-Committee on Aboriginal Education

Departmental mandate and responsibilities for education

4.15 The *Constitution Act* (1867) assigns the power and authority for legislation governing education in Canada to the provincial legislatures. However, the Act also assigns power and authority to the Parliament of Canada for matters dealing with Indians and lands reserved for Indians.

4.16 The Department's mandate and responsibilities stem from exercising its authority and fulfilling its obligations under various statutes, treaties, agreements and government policy. Since 1927, under the *Indian Act* the Minister of Indian and Northern Affairs may provide for and make regulations concerning schools for Indians living on reserves, with respect to teaching, education, inspection and discipline. The *Indian Act* also provides for school attendance by Indian children aged 6 to 18.

4.17 In addition, the Crown is responsible for providing education under various Indian treaties. For example, Treaty No. 3 between Her Majesty the Queen and the Saulteaux Tribe of the Ojibway Indians, signed in 1873, states, "Her Majesty agrees to maintain schools for instruction in such reserves as... may seem advisable [to the government] whenever the Indians of the reserve shall desire it."

4.18 Other instruments involving departmental responsibilities for education include contemporary tuition agreements with provincial authorities, funding arrangements with First Nations, comprehensive land claim settlement agreements, self-government agreements and education policies.

Human capital and financial significance

4.19 Education issues rank with self-government, claim settlements and on-reserve living conditions as major priorities for the government and First

Nations to address. The consequences of inadequate or inappropriate education are well known in the context of national and community socio-economic development and sense of personal well-being. Thus the requirement to ensure and fund appropriate education needs to be viewed not only as an expenditure but also as an investment in present and future human resources.

4.20 It is noteworthy that the Department's social assistance and support programs for First Nations are approximately $1 billion annually, about the same as the cost of elementary and secondary education. Although factors other than education can affect the demand for social assistance, it has been demonstrated that education, or lack of it, is directly related to jobs, income levels and the potential for well-being.

4.21 Educational achievement is also a positive factor in the survival of Aboriginal culture, First Nations economic self-sufficiency, program devolution, implementation of inherent rights, and other matters of mutual interest to the Department and First Nations.

Focus of the audit

4.22 The overall objectives of the audit were to determine whether the Department has reasonable assurance that it is meeting its objective to assist First Nations in achieving their educational needs and aspirations; is exploiting existing opportunities for operational improvements, including the way it manages education funds; and is demonstrating accountability for results. Further details on the audit are found at the end of the chapter in **About the Audit**.

Observations and Recommendations

Fundamental Issues That Require Attention

Initiatives to address educational needs have been slow in coming.

Meaningful action is lacking

4.23 Education issues have been reported to the Department through numerous studies over the years. According to one First Nations organization, education for First Nations has been studied for over 20 years. This includes at least 22 studies between 1991 and 1999 in one departmental region, done with the Department's knowledge or involvement.

4.24 Examples of issues reported in these studies relate to the need to:

- improve First Nations governance and management structures for education;
- address retention of Aboriginal languages;
- enhance the curriculum to meet First Nations needs;
- increase funding for special education, counselling and library services;
- address inadequacies in such areas as specialist services, technology, and guidance clinics; and
- improve teacher training.

Exhibit 4.3

Funding Arrangements for Education

The types of education funding arrangements for Indian children living on reserves include:

- tuition agreements between First Nations and provincial education authorities;
- tuition or funding agreements between the Department and provincial education authorities;
- master tuition agreements between the Department and provincial ministries of education;
- tripartite education agreements between the Department, First Nations and provincial authorities; and
- funding arrangements between the Department and First Nations.

4.25 Although the Department has directly or indirectly funded all of these studies, their total cost is unknown. None of the study reports that came to our attention was accompanied by a departmental implementation plan that identified how and by whom the necessary remedial action would be taken, in what time frame and what it would cost. The Department advised us that it had neither accepted nor rejected the findings of these studies, nor shared them with all regional offices. Therefore the maximum benefits of these studies may not be realized.

The Department needs to clarify its role in education.

4.26 Although we are concerned that costs have been incurred to produce studies that have been left dormant, we believe that the costs of remedial inaction are greater.

4.27 In early 1998, the federal government acknowledged the tragic experiences that the residential school system inflicted on Indian students. The government recognized that Indian culture and values had been suppressed under that system and that, in some cases, students had been victims of abuse. The government undertook to work with First Nations, other Aboriginal groups and other parties to resolve these issues. The challenges include the need to address the complex factors of jurisdiction, geographical remoteness, and cultural and social circumstances.

4.28 A government initiative in 1998, Gathering Strength — Canada's Aboriginal Action Plan, is intended to address these education issues and other matters. The initiative is an integrated, government-wide plan for remedial action to improve the quality and cultural relevance of education, including the effectiveness of classroom instruction, community and parental involvement and management and governance capacity. As of September 1999, the Department had identified or started several projects for education reform under this initiative.

4.29 Indian and Northern Affairs Canada should demonstrate how its initiatives, including Gathering Strength — Canada's Aboriginal Action Plan, will successfully address the long-standing issues and improve First Nations education. Action plans that identify how and by whom action will be taken, the time frames, the costs and the funding responsibilities should be implemented expeditiously.

The Department needs to articulate and formalize its role in education

4.30 Many stakeholders have a vested interest in education. These include the Department, First Nations and their organizations, educators, provincial education authorities, parents of students and, of course, students themselves. Each party has an important role to play in the pursuit of high-quality education.

4.31 The Department's mandate in education has evolved since at least the 1800s. In addition to the federal government's responsibilities for education specified in various Indian treaties, the government has held, and continues to hold, statutory powers for the education of Indians. The Department has the authority under the *Indian Act* to take an active role in education. However, under various agreements, it has delegated its authority to First Nations and the provinces for the design and delivery of education to Indian students.

4.32 In its 1999–2000 Estimates to Parliament, the Department states that its objective for education is to assist First Nations in achieving their needs and aspirations. However, there is ambiguity and inconsistency within the Department about the role it needs to play to meet this objective.

4.33 For example, the Department has acknowledged that not all First Nations are prepared to accept responsibility for devolved programs, including education. Yet many departmental regions interpret their major role as that of providing a

funding service. Only one of seven regional offices maintains an education program; however, even there, the major priority is to negotiate and provide education funding.

4.34 The Department is reviewing its role in education, including the setting of education priorities, curriculum development, identification and funding of eligible support services, and other matters. For example, some departmental regions have not fully defined their roles in ensuring high-quality education. In one region, this is partly because it does not know what the impact will be of the new governance regime for some First Nations in that region.

4.35 As relationships evolve, the Department will need to conclude whether its role should be that of a funding agency, an education standards-setting body, a monitor, capacity builder, advisor or co-ordinator — or all, some or none of these. Clarification is needed so that the Department can reasonably determine whether its existing capacity and resources are sufficient to achieve its objective. Failure to determine this will jeopardize the Department's ability to achieve its objective and discharge its responsibilities.

4.36 The Department and some First Nations and provinces are undertaking new initiatives regarding First Nations jurisdiction for education. One such initiative involves the Mi'kmaq Nations of Nova Scotia. In April 1999, the federal *Mi'kmaq Education Act* and the Province of Nova Scotia *Mi'kmaq Education Act* came into force to confirm this arrangement.

4.37 We reviewed the Mi'kmaq initiative, as set out in the insert on page 4–12, to identify examples of opportunities for "lessons learned" that could benefit future initiatives of this type. Negotiations are under way between the federal government and at least 10 First Nations groups in other regions to enable them to assume greater control over education in their communities.

4.38 Such agreements are intended to address the aspirations of First Nations to better control education for their members. We believe that the implementation of the Mi'kmaq agreement over time will determine the benefits to be realized, the pitfalls to be avoided and the appropriateness of the intended roles and jurisdiction of the parties.

4.39 Since the Department is seeking to meet the education needs and aspirations of First Nations, it is important that it clearly demonstrate how this will be achieved. And since the Department has chosen to rely on First Nations and provincial education authorities to design and deliver appropriate education, it needs to articulate its role in the context of their roles. Where the other parties do not address the education requirements of Indian students, the Department needs to take appropriate action.

4.40 We could not find a formal articulation of the Department's role or responsibilities in education. As a consequence, the Department's accountability for results is weakened and its assurance that education funding is being spent appropriately is, at best, unclear. In articulating its role, the Department needs to identify the nature of the leadership it must take to ensure that its authorities, responsibilities and obligations for education are met. This includes:

- identifying deliverables it must produce, including First Nations capacity building;
- identifying and assessing the impact of any constraints it faces;
- taking into account the roles and accountabilities of other parties;

(continued on page 4–13)

Mi'kmaq Education Agreement

The following case illustrates an initiative taken by the Department, the Province of Nova Scotia and nine First Nations with respect to education powers and responsibilities.

Background

In February 1997, the governments of Canada and Nova Scotia and 9 of 13 eligible Mi'kmaq First Nations signed an agreement that enabled the First Nations to exercise jurisdiction for primary, elementary and secondary education on Indian reserves, and to accept responsibility for education, subject to the agreed terms and conditions. This agreement was enshrined in law in April 1999. Under the arrangement, the First Nations are exempt from the education provisions of the *Indian Act*. In addition, their laws regarding education on reserves will take precedence over provincial education laws.

By transferring law-making powers for education to the participating Mi'kmaq First Nations, the agreement provides new opportunities as well as the potential for limitations. For example, such matters as the nature and duration of First Nations jurisdiction, the funding of education, termination of the agreement by either party and the suspension of the education sections in the *Indian Act* are subject to the agreed terms and conditions. In addition, there is a requirement that the First Nations provide education at a standard comparable with other education systems in Canada.

As of October 1998, the nine participating First Nations had 2,250 students attending elementary and secondary schools, with 76 percent attending First Nations-operated schools. The Department estimated the funding of this initiative at about $25 million for 1999–2000.

Purpose of our review

The purpose of our review was to identify examples of opportunities for "lessons learned" that could benefit future initiatives of this type. We also noted the positions of the four First Nations who were eligible to participate but elected not to. We did not review the implementation of the agreement but will consider doing so after more progress is achieved.

The following examples of opportunities for lessons learned are identified below.

Opportunities for lessons learned

Preparedness — governance and accountability. We expected to find a joint assessment by First Nations and the Department of the First Nations' preparedness to effectively implement their expanded role while taking into account cultural needs, priorities and approaches. Such an assessment could assist both parties to effectively discharge their respective responsibilities. However, no joint assessment was provided during the audit.

The agreement and its accompanying implementation plan provide for First Nations governance and accountability to their membership. These provisions include the need for transparent and fair processes for the enactment of education laws and regulations, for the administration of education, and for effective redress and related matters.

Funding arrangements between the Department and the First Nations call for First Nations to provide self-assessments of their accountability and management to the Department. We found that for the nine participating First Nations, two self-assessments had been completed and three were in progress. These self-assessments generally indicated that improvements were needed in several areas, including financial and program management, by-law development and organizational matters.

The agreement also identifies the Department's obligations. These relate primarily to funding matters. We expected to find additional provisions for departmental accountability relating to the successful implementation of the agreement; however, the agreement is silent in this regard.

In our view, appropriate attention to these areas could strengthen the quality and scope of education provided. Officials advised us that a study had recently been initiated to report on how First Nations were managing education programs.

Preparedness — pedagogical and financial capability. Seven of the participating First Nations operate on-reserve schools. We believe that an evaluation of the past performance of these schools would have been helpful to the parties in tailoring an agreement to meet their needs. However, no evaluations were available from the Department.

We further noted that in September 1999, the First Nations prepared an Emergency Report for the Department's action, covering three of the nine participating First Nations. Among other things, the report identified additional funding requirements and specific pedagogical needs, including those relating to native language instruction. It further noted that the loss of language is one of the serious adverse consequences of native children attending provincial schools. It was not readily apparent whether these concerns were a direct result of the transfer of jurisdiction. The Department is studying the report.

We believe that as a general principle, the transfer of powers ought to be accompanied by appropriate levels of funds to ensure successful implementation of the First Nations' expanded role. We would therefore expect the Department to analyze the report to determine what action should be taken. At the same time, the Department needs to ensure that it does not overfund education as a result of this new arrangement.

Implementation review. The implementation plan to the agreement calls for an annual joint review to be performed of how well the agreement is being implemented. Two reviews should have been completed at the time of this audit; however, none were done. The Department advised us that some work was under way in this regard.

We note that the results of such reviews could benefit several negotiations on education jurisdiction that are currently in process with other First Nations. Accordingly, we would encourage the parties to complete the reviews expeditiously.

Positions of non-participating First Nations. Four of thirteen eligible First Nations chose not to participate in the agreement, because they believe the following:

- The agreement is a delegation of federal authority and not a treaty, as expected.
- There is no protection for the long-term future of educational needs as there is no commitment beyond the five-year term of the agreement.
- The Department and the educational authority allotted insufficient time to the First Nations to consult on general educational matters with members of their communities.
- Education sections in the *Indian Act* were suspended without adequate consultation.
- There were perceived conflicts between the First Nations education authority and provincial systems.

Conclusion

We believe that the experience of implementing the agreement over time will determine the benefits to be realized, the pitfalls to be avoided and the appropriateness of the intended roles and jurisdiction of the parties.

(continued from page 4–11)

- defining its accountability for results; and
- communicating its role clearly to the parties involved.

4.41 Indian and Northern Affairs Canada should articulate and formalize its role in education while taking into account the roles of other parties. It should demonstrate how it will meet its responsibilities and objective, and assess the impact on departmental resources and capacity.

Resolving the education gap will be a challenge

4.42 Education funded by the Department is intended to ensure that Aboriginal culture is not neglected while students gain an education that is portable to other jurisdictions and is acceptable to institutions of higher learning. Ultimately, Indian students so equipped would benefit from a socio-economic standpoint.

4.43 However, we found a significant gap in educational achievement between Indian students and non-Indian students, based on provincial education requirements and results. We also note that the rate of growth in the on-reserve population indicates an increasing demand for education services. With this urgency, narrowing the gap is a significant challenge to all those involved. Closing it will be a crucial test of the resolve of the Department and First Nations.

4.44 In its March 1999 Performance Report to Parliament, the Department stated that concrete results are being achieved. Its view is based on the progress reported between 1991 and 1996 for on-reserve population having at least a high school education. The Department reports an improvement in the high school completion rates for Indian students over five years, from 31 percent to 37 percent. This compares with a 65 percent high school completion rate for the Canadian population as a whole in 1996. At this rate of progress, it will take approximately 23 years for the Indian population on reserves to reach education parity with the overall Canadian rate for high school completion, if that rate remains constant. We believe that more and faster progress is urgently needed.

4.45 Although the Department reports that there are some 27,000 First Nations students pursuing a college or university education, the Department does not have data that enable it to attribute this enrolment to its role and activities in education. Nor has it determined the significance in terms of the total number of Indian students under its jurisdiction

that should have been eligible for college or university enrolment.

4.46 To help address the education gap, the Department, First Nations, a provincial government and other stakeholders signed a memorandum of understanding in February 1999 to improve the school success of Indian students in that province. This has led to subsequent undertakings between the province and First Nations to link program funding and education success, including the establishment of performance principles and goals. The Department views this initiative as a future direction for First Nations education, although it is too early to assess its success.

Both cultural and educational needs of Indian students need to be met.

4.47 Among the major concerns reported by First Nations to the Department are those related to culture. These include chronic shortages of qualified teachers for native language instruction and native studies, lack of culturally appropriate curricula and funding shortfalls.

4.48 Additional concerns related to the education gap include the following:

- The Department does not know whether special needs students are being appropriately identified and assisted. Special needs students are those who are physiologically disadvantaged or have learning disabilities. Because of the reported lack in diagnostic expertise on reserves, we believe that the potential for under- and over-identification of these students is high. In addition, the Department does not know whether all funding provided for diagnostic and remedial services is actually used for this purpose. In one region, this amounts to $581 per student-year for all students. Further, the Department does not know the length of time that students are maintained in special needs status. This makes it more difficult to identify opportunities for improved services. In another region, where costs ranged from $2,047 to $65,650 per special needs student, there was no process or mechanism to ensure that student needs were being served.

- The Department does not generally review the mission statements, objectives and plans of the schools it funds. Accordingly, it does not have important information on the overall focus of the schools. Such information would help the Department determine whether the needs are being met and whether its role is appropriate.

- There are significantly more elementary schools than secondary schools on reserves. Consequently, where secondary schools are not available, students must leave their reserves to attend provincial secondary schools. The Department has no overall strategy to determine, assess and act on the need for First Nations secondary schools.

- Recent evaluations of on-reserve schools disclose a significant need to improve various aspects such as curricula, teacher training, equipment and homework policies. However, the Department does not monitor the implementation of evaluation recommendations.

- Under the terms of its funding arrangements with First Nations, the Department requires that all First Nations provide it with a self-assessment of their management and accountability. The purpose of the assessment is to identify needed improvements to First Nations governance, accountability, capacity to deliver devolved programs and related matters. We noted that many of the required assessments are missing; completed ones indicated weaknesses in the management of education, but there was virtually no departmental information on whether remedial action was taken. Further, we noted in one region that information from self-assessments was not shared with departmental officials responsible for education in other regions; nor did these officials have input into the

design of the self-assessment questionnaire.

- The Department has little involvement with First Nations in the development of pedagogical principles and instruments, including curriculum design, instruction standards and teacher qualifications. Because the Department is relying on First Nations and the provinces, it needs assurance that the design and delivery of education is consistent with the Department's objective and responsibilities. In one departmental region, the province only recently updated the curriculum to include guides on native language instruction and native studies, effective September 1999 for grade 9 and September 2000 for grade 10. Officials informed us that the curriculum for other grades is still under development in these two areas.

4.49 In June 1996, the Standing Committee on Aboriginal Affairs and Northern Development published the results of a study conducted by its Sub-Committee on Aboriginal Education. The Sub-Committee made four recommendations, as summarized in Exhibit 4.4. In October 1999, the Department was unable to demonstrate that all of these recommendations had been implemented.

4.50 The education gap directly affects the current well-being of Indian students as well as their access to a strong socio-economic standing in the future. It also affects the costs of social assistance and may increase the Department's vulnerability to legal and moral challenges. Further, the gap can adversely affect devolution, implementation of the government policy on inherent rights and survival of Aboriginal culture.

4.51 Socio-economic factors affecting success in education include the adequacy of housing and infrastructure and economic development. Some factors contributing to the gap go beyond the Department's mandate and control. For example, it is difficult for the Department to influence parental guidance, which plays an important role in education. However, the Department has not attempted to isolate and assess the factors within its areas of responsibility so that improvements can be made. There are also new challenges. For instance, some provinces are introducing or have recently introduced sweeping changes to their education systems. The Department will need to determine the effects of these changes on Indian students.

4.52 Indian and Northern Affairs Canada, together with First Nations and based on the needs and aspirations of First Nations, should develop and implement an action plan with targets to close the education gap, without delay.

Appropriate performance and results indicators are needed

4.53 Indicators of education performance and results are needed to provide assurance that the Department is meeting its objective and to demonstrate accountability for results. This information should reflect not only process inputs, such as the resources used

- The Department should make the establishment of an Aboriginal Education Institute its highest priority.
- Federal legislation should be drafted in consultation with First Nations educational authorities to, among other things, recognize such authorities as separate legal entities apart from band councils and to repeal those sections of the *Indian Act* dealing with education for them.
- The Department should re-evaluate its funding methods to better accommodate First Nations education needs.
- The Department should work together with First Nations and financial institutions to develop new arrangements for obtaining capital for education purposes.

Exhibit 4.4

Recommendations of the Sub-Committee on Aboriginal Education – June 1996

Source: Standing Committee on Aboriginal Affairs and Northern Development

in providing education, but also outputs and outcomes, such as the number of students served and their educational achievement. Currently, the Department collects the following information:

- nominal roll information (student registration);
- census information;
- First Nations declarations on teacher certifications; and
- other periodic information.

The Department needs better performance information.

4.54 This information needs to be reliable and relevant to the Department. The Department is aware that improvements are necessary in these areas. For example, it needs to ensure that information reported by First Nations is complete and complies with the reporting requirements in the funding arrangements. Moreover, in the absence of a clearly articulated departmental role, the data collected, even if reliable, may not appropriately serve the needs of the Department.

4.55 In addition, the Department is unable to compare the drop-out rate and educational achievement of Indian students attending First Nations schools with that of Indian students attending provincial schools. It is therefore difficult for the Department and First Nations to determine specific opportunities for improving achievement of Indian students in each school system.

4.56 In addition, test comparisons between Indian and non-Indian students would be helpful in determining whether the needs of students are being met. For example, in May 1997 a national testing program (not administered by the Department) assessed the basic and advanced mathematics skills of 48,000 students across Canada. First Nations schools did not participate in this program. Their lack of participation means that an opportunity to obtain information on the achievement of Indian students was missed.

4.57 The issue of meaningful performance and results indicators in education is highly complex because of the many factors that need to be assessed. These factors relate to the variety and number of students and their needs, teacher qualifications, programs, available resources and technology, demographic trends, education objectives and structures, and other matters. Useful indicators would therefore likely need to include several sources of information in addition to testing. Some examples of potentially useful performance and results indicators are set out in Exhibit 4.5.

4.58 Identifying, developing, gathering and applying appropriate performance and results information is a significant challenge. This challenge is

Exhibit 4.5

Potentially Useful Performance and Results Indicators

Performance and results indicators that may prove useful include:

- the quality of education products offered and delivered;
- the extent to which cultural needs are being met;
- the rate of success with special needs students;
- the degree of achievement of education targets in a school or region;
- the extent to which students are acquiring knowledge, skills and attitudes that will enable them to progress to post-secondary education;
- the contribution of education to the achievement of First Nations economic self-sufficiency;
- a comparison of education costs per student and results within and outside the same education system; and
- the degree of community satisfaction with education.

even more formidable since the Department has not obtained and articulated the educational needs and aspirations of the over 600 First Nations.

4.59 In our view, unless appropriate indicators along with targets are developed and applied, improved education services, First Nations accountability to their members and the Department's accountability for results to Parliament will be impeded.

4.60 Indian and Northern Affairs Canada, with input from the applicable parties, should develop and apply appropriate performance and results indicators along with targets.

Opportunities for Operational Improvements

Comparable education costs are not available

4.61 The Department needs reliable cost information to achieve good value in discharging its responsibilities. This is particularly important when three types of education delivery are in place (First Nations, provincial and federal schools). For example, cost variations could reflect efficiency, inefficiency, underdelivery or overdelivery of programs, as well as fluctuations in education quality.

4.62 Recent departmental studies indicate that education costs per student vary moderately to widely among First Nations, provincial and federal schools. There are several possible reasons for the variances, including the purpose of the cost study, method of cost identification, scope of included/excluded services, education standards applied, volume and location factors and efficiency of programs.

4.63 Consequently, the available cost studies may not provide a conclusive and reliable basis for a comparison of actual education costs incurred. Such information could be used for current and future decision making on funding levels, education alternatives and operational efficiency. Further, accountability for results is diminished when appropriate comparative cost data are missing.

Actual education costs are not known to the Department

4.64 It is noteworthy that education funding and costs may be different from each other. For example, a March 1999 study concluded that it is not possible to determine how education funds provided by the Department for First Nations schools are actually spent, because each First Nation administers its own expenditure plan. We reported similar concerns in our previous audits of funding arrangements between the Department and First Nations. We noted that First Nations have the authority to transfer funds received from the Department between programs. Therefore, the actual costs per student in First Nations schools may be higher or lower than the allocated amount used by the Department in its comparisons.

The Department does not know how much money is being spent by First Nations on education.

4.65 In addition, we could not find any separate cost-per-student analysis for First Nations elementary and secondary schools; nor could we find information that identified per-student costs paid directly to provincial authorities separately from per-student costs paid directly to First Nations. The Department needs this information to help identify opportunities for better use of resources to improve results.

4.66 We also observed that current methods used to allocate funds from the Department's headquarters to its regions are based largely on information that was developed at least 15 years ago. The Department has no updated analyses to determine whether the current practice reflects actual education needs and is reasonable in the circumstances.

4.67 Lack of appropriate information on costs makes education planning more difficult, and impedes efficient operations

of First Nations-managed schools and the identification of best practices. It also makes narrowing the education gap more challenging.

4.68 Indian and Northern Affairs Canada should develop and apply uniform cost criteria, on a comparative basis among the different delivery approaches, to determine actual patterns in education costs. The Department should use this information to help identify best practices that should be perpetuated and to address those practices that require improvement.

Issues relating to education funding agreements need to be addressed

Education funding agreements need to be entered into in more instances.

4.69 Education funding agreements provide the funding framework for the delivery of education. Our review of a sample of agreements in three major departmental regions disclosed a variety of findings that the Department needs to address. The observations cumulatively point to significant deficiencies in the Department's practices overall. Following are some examples.

4.70 Lack of education funding agreements. In one region, we noted 244 instances where we expected to find agreements between First Nations or the Department and provincial education authorities to cover student enrolment in provincial schools for 1998–99. However, the Department was able to identify agreements in only 58 cases. Further, it did not know whether any agreement was in force for 128 cases and determined that no agreements existed in the remaining 58 cases.

4.71 Although the Department has funding arrangements with some provincial education authorities, these focus on funding requirements. They are not a substitute for individual agreements that should identify the specific education needs of diverse Indian communities located in urban, rural, remote and special access areas of the region. In our view, the lack of agreements and lack of knowledge on the existence of agreements significantly reduces the assurance needed by the Department that its overall objective is being met.

4.72 We further observed in one departmental region that a master tuition agreement between the Department and the provincial Ministry of Education had expired in 1992 and had not been renewed. The agreement, which had been in force for five years, set out the terms for payment of tuition fees. It also acknowledged that linguistic and cultural differences exist between Indian and non-Indian students that may require that extra support be provided to Indian students to enable them to succeed in school. The agreement indicated that the goal of education parity for Indian students with non-Indian students in the province was considered a major priority.

4.73 The Department indicated that the emphasis on improving education in that region is being applied through local education agreements negotiated between individual First Nations and local school districts. Although this approach may be suitable for some First Nations, others may be better served by individual agreements together with umbrella agreements that would set out minimum standards and expectations. We believe that these agreements together can have a positive influence on the quality, consistency, scope and cost of education for Indian students. For example, they can provide an opportunity to identify the education needs that should be met and the related strategies that should be used.

4.74 Agreements in dispute. The implementation of agreements between some First Nations and provincial education authorities has resulted in disputes leading to the non-payment of fees by the First Nations to the province. For example, as of December 1999, 17 provincial school districts in one region reported that 23 First Nations were not

paying tuition costs as agreed. The outstanding amount was $6.3 million.

4.75 Although the Department indicated that it had recently increased its involvement in helping to resolve these issues, we noted that it had not fully determined what portions of the $6.3 million outstanding were related to insufficient funding or other causes. Where a shortfall in funding is not a contributing factor, the Department needs to know where the money went. This information, together with an analysis of any other reasons for withholding payment, would assist the Department in determining the most appropriate action.

4.76 Lack of written criteria for the selection of education funding agreements. Since there are several types of agreements that can be selected for use, we expected to find criteria that would identify the circumstances under which a particular type would apply. The Department has not developed such criteria. Consequently, it is at greater risk that an inappropriate agreement will be used, with possible adverse consequences to the services delivered.

4.77 In November 1996 and April 1999, we reported a similar concern about the need for the Department to ensure that selected funding arrangements between it and First Nations are consistent with the preparedness of First Nations to assume increased responsibility for devolved departmental programs. The same applies to education agreements, particularly because of the wide variety of First Nations and educational authorities.

4.78 Improved monitoring is needed. Adequate monitoring of the implementation of education funding agreements is important to help ensure that the appropriate education is delivered at the right cost and in accordance with the applicable agreements. We believe that regardless of how education is delivered — through First Nations, provincial or federal schools — the Department has a responsibility for effective monitoring. This is not only because the Department is funding education, but also because it has obligations for providing education.

4.79 An appropriate monitoring function would include national minimum standards covering such things as:

- the objectives, nature, extent and scope of monitoring;
- the identification of higher-risk cases for closer or more frequent review;
- the requirement for written action plans for remedial intervention where indicated;
- a reporting requirement that highlights lessons learned for future application; and
- methods of obtaining assurance that First Nations themselves have an effective monitoring function.

4.80 We could not find a monitoring regime that addressed these matters and that could contribute to producing better results. For example, in one case, a provincial education authority acknowledged tuition overbillings of about $700,000 to a First Nation only after an unexpected deficit reported by the First Nation triggered a review.

4.81 The potential pervasiveness of inappropriate billings is not known, partly because of the lack of an appropriate monitoring regime. However, this case serves to illustrate the Department's need for assurance, particularly when it relies on other parties to deliver education.

4.82 Nominal roll verification. The nominal roll is used to determine the amount of funding allocated to the education of Indian students who attend schools on and off reserves. The roll is designed to reflect the student registration at the beginning of the school year, thereby supporting the amounts budgeted for education. Adjustments to the roll are made through the Department's process of

verifying actual attendance information submitted by the schools. An overstated nominal roll can result in excessive allocation of education funds.

4.83 In our selective overview of the Department's nominal roll verification, we noted two broad opportunities to increase the benefits gained from this process:

- the opportunity to develop and apply a comprehensive strategy for nominal roll verification; and

- the opportunity to expand the use of nominal roll information.

4.84 Verification strategy. The Department does not have a comprehensive strategy for nominal roll verification. Verification practices differ among the departmental regions in frequency and approach. We found that these varied practices are not based on documented risk assessments that reflect the potential for errors in the reported nominal rolls. Risks can vary among First Nations and regions. They can also vary between on-reserve and off-reserve schools.

The Department needs to consult more fully with First Nations on their education needs.

4.85 A comprehensive strategy could address, among other things:

- appropriateness of funding allocations;

- risk identification by school and potential costs and benefits of verification efforts;

- acceptable levels of verification costs and levels of tolerable errors;

- alternatives to direct verification, such as reliance on provincial checks;

- types of remedial action to be considered when errors are detected;

- appropriateness of verification, and its extent, timing and frequency; and

- reporting of verification results.

4.86 Without a comprehensive verification strategy, it is difficult, if not impossible, for the Department to know whether it is receiving the assurance it needs from its verification efforts at a reasonable cost.

4.87 Use of nominal roll information. The Department has an opportunity to use the nominal roll for purposes related closely to the education gap and meeting its objective to assist First Nations in achieving their educational needs and aspirations. For example, information on courses offered and taken and on student progress could be gathered through the nominal roll process. This information, in turn, could contribute to developing performance indicators or be linked to them. The information produced would benefit the Department, First Nations and provincial education authorities since they could more readily identify problem areas and assess their overall significance in determining any necessary action.

4.88 Consultations on pedagogical matters. Education funded by the Department is intended to benefit First Nations students who have a variety of academic, vocational, cultural and special needs. Accordingly, it is essential that First Nations have appropriate input to the basic elements of education, such as the formulation of education objectives, curriculum design, instructional methods, student and teacher evaluations, and general education principles.

4.89 This would require consultations among the Department, First Nations and the provincial ministries of education. We found that some input is provided through First Nations education committees and organizations, and contact with provincial education authorities. However, we could not find a departmental mechanism that would ensure that all 600 First Nations are being adequately represented or that an opportunity for their effective input is provided.

4.90 Indian and Northern Affairs Canada in consultation with First Nations should develop and implement an action plan to address opportunities for operational improvements relating to:

- **the lack of education funding agreements;**
- **the resolution of agreements in dispute;**
- **the lack of written criteria in the selection of education funding agreements;**
- **the monitoring of the implementation of agreements;**
- **nominal role verification and use; and**
- **consultation on pedagogical matters.**

School evaluations are important to success, but many are missing

4.91 The Department requires that on-reserve schools be evaluated every five years, and it provides funds to First Nations for this purpose. The Department generally relies on First Nations to perform the evaluations.

4.92 The evaluations are intended to assess overall school performance as well as specific issues that may apply to a particular school. The benefits of appropriate evaluations include identifying opportunities for improving education.

4.93 We observed the following:

- A significant number of the required evaluations were never done. For example, in one major departmental region, at least 31 of 106 (29 percent) First Nations schools that had operated for over five years had never been evaluated. In another region, 15 of 53 evaluations were late by one to nine years. In a third region, the Department does not know how many evaluations had been performed.
- Evaluations that came to our attention disclosed serious deficiencies in school operations.
- The Department has no systematic mechanism to ensure that reported recommendations are acted upon and to confirm that they have been implemented.

4.94 In the case of one First Nations school, a 1998 evaluation identified 86 recommendations for improvement, affecting almost every aspect of education. The report observed that many of the recommendations made in a 1991 review had not been implemented. In another First Nations school, a 1999 evaluation resulted in 240 recommendations. This does not augur well for those schools not yet evaluated.

The Department needs to ensure that evaluations are performed and addressed.

4.95 Further, the Department does not generally request access to evaluations performed in provincial schools, despite its funding of provincial education for about 40 percent of the total Indian student enrolment. Consequently, it does not have sufficient information to properly identify unresolved significant issues or even to determine whether the provincial evaluations address matters of relevance to Indian students.

4.96 Indian and Northern Affairs Canada should ensure that evaluations of on-reserve schools are done as required. It should also require, obtain and review evaluations conducted of provincial schools attended by Indian students. In addition, the Department should develop procedures to ensure that all valid evaluation recommendations are implemented within a reasonable time.

Conclusion

4.97 Although the Department has reported some progress in recent years, it must significantly increase its efforts to improve the record of educational achievement by First Nations students while addressing their cultural needs. Many parties have reviewed education for Indians and have raised concerns over many years. Remedial action is urgently needed. Today's urgency will be exacerbated by increasing demands for education services as a result of demographic changes in Aboriginal communities. In the absence of satisfactory progress, there will be an increased waste of human capital, lost opportunities, high financial cost in social programs and a degradation of the relationship between the government and First Nations peoples.

4.98 The Department must also obtain assurance that it is meeting its objective to assist First Nations in achieving their education needs and aspirations. In so doing, the Department needs to formally articulate its role in education. This is a prerequisite to determining the capacity and resources needed to fulfil its objective. The Department has failed to identify and act on available opportunities to improve operations and demonstrate accountability for results.

4.99 We believe that success in providing education to Indian students can be achieved only if their needs and aspirations are appropriately identified and served by an education system that is designed to meet them. We encourage all the stakeholders, including the Department, First Nations, provinces and parents of school-age children, to work together effectively toward a common goal of progress.

Department's overall response: *Indian and Northern Affairs Canada acknowledges the importance of the many issues in First Nations education identified in this chapter. It recognizes the need to work with all parties to better articulate its role in education, to develop and use appropriate performance measures and to improve operational performance.*

The Department holds to expectations that First Nations students must have access to education programs of a quality comparable to that of their province of residence. The programs must also ensure that students can transfer readily to public schools or go on to post-secondary education.

In the mid-1960s, there were only several hundred First Nations students pursuing a college or university education in Canada. Today, there are over 27,000. While there are different factors that contribute to this increase, one measure of the success of elementary and secondary education is the gaining of access to post-secondary educational institutions.

Education reform is a key initiative of Gathering Strength — Canada's Aboriginal Action Plan, *begun in early 1998. Through it, the Department, with the active engagement and participation of all partners, is committed to securing meaningful and ongoing improvements in First Nations education. These include a stronger and better-tooled First Nations education system and a faster resolution of the gap in student achievement between First Nations and other Canadians.*

In one region, for example, a large regional organization working with several provincial and federal government departments has undertaken to provide school board type services for many First Nations. This organization and others are undertaking a range of projects that include curriculum enhancement, increased use and teaching of Aboriginal languages, and other specialized programming; some projects also leverage from other sources, including the private sector.

The Department will work with First Nations in developing and implementing action plans, unique to each region's particular situation and requirements. The Department recognizes that there is a need to monitor closely these initiatives and their collective progress toward a strengthened system of First Nations education.

It is significant that since the 1970s, the Department has committed to the principle of "Indian control of Indian education" as outlined by the then National Indian Brotherhood, now the Assembly of First Nations. This includes authority for First Nations to administer their own schools and to work with provincial governments to ensure the provision of effective and culturally appropriate education for their children.

Accepting the principle of "Indian control of Indian education", the Department's role in First Nations education is gradually evolving along a continuum from direct delivery of education services to government-to-government relationships. At present, the Department's role in a particular community's education arrangements varies according to the degree of autonomy the First Nation feels ready to exercise, given their governance capacities, and the extent of support that it requires from the Department.

The Department recognizes that the diversity of these roles may create confusion among First Nations but also within the Department. As such, the Department is conscious of the need to better articulate its role in First Nations education. This is an important element in more firmly grounding the Department's relationship with First Nations and the provinces in education delivery. It is also a necessary first step in outlining an action plan for operational improvement, which includes, for example, appropriate performance measures.

In British Columbia there is perhaps the strongest indication of the future direction for First Nations education. As noted in this chapter, a memorandum of understanding (MOU) among the provincial government, the Department, First Nations and other education partners expresses a commitment "to improve school success for Aboriginal learners in British Columbia." It encourages active engagement at the local level to set performance targets and to monitor progress. The first manifestation of the MOU is an agreement between a group of First Nations and the Kamloops provincial school district, where tuition costs paid by First Nations are tied to the school district's accountability for student performance.

These kinds of measures will help close the education gap sooner than contemplated in the chapter.

About the Audit

Objectives

The audit sought to determine whether the Department:

- has reasonable assurance that it is meeting its objective to assist First Nations and Inuit communities in achieving their educational needs and aspirations;
- is exploiting existing opportunities for operational improvements, including the way it manages education funds; and
- demonstrates accountability for results in terms of its mandate for education.

Scope

The audit scope and approach included a review of the Department's mandate for elementary and secondary education for Indian students living on reserves. We also reviewed how the Department implements its mandate by examining selected activities and related information, including a sample examination of education funding agreements. The audit did not include a review of school construction and maintenance since these were reported in 1995 and 1997 as part of our audits of capital facilities on reserves.

We conducted the audit in departmental headquarters and three major regions of the Department that together were allocated about 50 percent of total elementary/secondary funding for the education of some 57,000 students. In addition, a fourth region was visited in connection with the case described in the shaded insert on page 4–12, and information was obtained from other regions as appropriate.

Further, we obtained the views of two major organizations representing First Nations, and the perspectives of selected provincial authorities and a professional education association.

Criteria

The following general audit criteria were applied. We expected that the Department would:

- have reasonable assurance that it is meeting its objective to assist First Nations and Inuit communities in achieving their educational needs and aspirations;
- exploit existing opportunities for operational improvements, including the way it manages education funds; and
- demonstrate accountability for results in terms of its mandate for education.

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April 2000

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Chapter 5

Canada Customs and Revenue Agency

Travellers to Canada: Managing the Risks at Ports of Entry

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.

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Canada Customs and Revenue Agency

Travellers to Canada: Managing the Risks at Ports of Entry

Main Points

5.1 The Canada Customs and Revenue Agency has many efforts under way to modernize its Customs operations and to make effective use of technology. However, we found that it needs to make some significant improvements.

5.2 A well-articulated and comprehensive compliance strategy is a key element of promoting compliance. Customs does not yet have an overall compliance strategy that clearly describes its plans for encouraging voluntary compliance and that outlines its approach to responsible enforcement.

5.3 We found that risk assessment is incomplete: Customs does not have important information it needs from a variety of departments and agencies to fully assess the risks its inspectors face. It needs to know where the risks are highest so it can determine the best way to control them. We have recommended that Customs work more diligently to obtain information on the risks arising from the responsibilities it carries out at ports of entry on behalf of other departments — Citizenship and Immigration Canada, Health Canada and the Canadian Food Inspection Agency, for example — and include them in its national risk assessment. It also needs to have up-to-date memoranda of understanding with those departments, setting out their respective roles and responsibilities.

5.4 We also found that Customs inspectors at the border and at airports need to be better equipped to do their complex job. They must enforce customs and excise legislation and make a variety of decisions for many other government departments. In processing travellers, Customs inspectors have only a short time to make these decisions. Customs does have information, systems and training to assist its officers but the information is not shared consistently, the systems need improvement and the training is uneven.

Background and other observations

5.5 In 1998–99 the Customs program of the Canada Customs and Revenue Agency processed over 104 million travellers who entered Canada at ports of entry. About half were returning Canadian residents. Most travellers enter Canada by highway from the United States (79 percent) or at airports (17 percent). Since 1991–92 the number of travellers coming by highway has decreased, while the number of air travellers has grown by almost 48 percent, owing partly to the Canada-United States Open Skies Agreement.

5.6 Over the years, Customs' role has evolved from mainly collecting revenue to one of facilitating the entry of travellers and goods, while protecting Canadian society and promoting the competitiveness of Canadian businesses.

5.7 Customs operates in an environment that continues to change. To help it deal with change, it developed discussion papers in 1990 and again in 1998 as blueprints for the direction it would take in the future and the initiatives it would employ. Customs has taken some major steps toward reaching the goals it set for itself in 1990. It recently released a draft five-year action plan to implement the initiatives identified in its 1998 discussion paper.

The Canada Customs and Revenue Agency's responses to our recommendations are included in the chapter. The Agency agrees with the seven recommendations, and its responses describe a number of actions under way to deal with them.

Introduction

5.8 Canada's tourism and international trade are on the rise. Consequently, the Customs program of the Canada Customs and Revenue Agency (the Agency) must carefully integrate its roles of facilitating the movement of people and goods, protecting Canada against inadmissible people and contraband, and promoting the competitiveness of Canadian business.

5.9 In 1998–99, Customs processed over 104 million travellers, 79 percent of whom arrived by highway. Seventeen percent entered at airports and the rest by ship, rail or other means. About half were returning Canadian residents (see Exhibit 5.1). The rest — mostly United States residents — were tourists, business travellers, immigrants or people coming to study in Canada.

5.10 Customs has no control over people's arrival times at Canada's ports of entry, and normally has to provide immediate service. At the height of cross-border shopping in 1991–92, Customs dealt with 128 million travellers entering Canada. The number of highway travellers has since decreased by 27 percent; however, the number of air travellers has grown by almost 48 percent, owing partly to the Canada-United States Open Skies Agreement. As a result, Customs is trying to speed up its processing of travellers and reduce their waiting time, while maintaining a strong enforcement presence.

A changing environment

5.11 The Customs organization has been around since the 1800s, when its main role was to raise revenue. Since then, its role has evolved into one of revenue collection and border protection — on its own behalf and that of other government departments. Methods for processing travellers entering Canada remained basically the same for years but, by the late 1980s, the environment and technology had changed and Customs needed to keep pace.

5.12 The late 1980s and early 1990s were a time of expanding traffic congestion at major Customs offices, intense public pressure to reduce delays, and cost restraint in government. Customs wanted to streamline the movement of low-risk people and goods across the Canadian border and enhance its enforcement programs through risk analysis and selective inspection. In March 1990, Customs issued a discussion paper, "Customs 2000: A Blueprint for the Future", that set out its vision for moving into the year 2000. The paper re-examined the conduct of Customs business and set

Exhibit 5.1

Returning Residents and Visitors to Canada



Source: Canada Customs and Revenue Agency

out an approach for responding to the growing demands on Customs from government, the private sector and the public.

5.13 Over the ensuing years, Customs has worked on developing these initiatives. While it has not accomplished all it set out to do in the travellers program, it has taken some major steps toward the goals it set for itself in 1990.

5.14 The environment in which Customs operates continues to change. Under NAFTA, travellers are bringing more goods into Canada duty-free, so the emphasis on revenue collection has been reduced. Also, personal traveller exemptions nearly doubled in 1995 and the seven-day personal exemption was recently increased to $750, so fewer returning travellers have duties and taxes to pay. This has diminished the risk that they will not declare legitimate goods they bring in. So, while Customs still collects revenue, its main role now is to protect the border and facilitate the entry of travellers.

While Customs still collects revenue, its main role now is to protect the border and facilitate the entry of travellers.

5.15 In this changing environment, Customs needs to respond quickly and effectively to the expectations of government and the public. As part of an evaluation exercise and to help redefine its relationship with its clients, Customs released a new "Blueprint" discussion paper in October 1998. The paper set out commitments, strategic goals and program initiatives. The Blueprint points out that in the present climate of cost restraint, the Agency must decide which programs to develop, and which of those have priority. After releasing the paper, Customs spent six months consulting with clients, stakeholders, other government departments, Agency staff and unions, and the Canadian public. The Agency produced a consultation report dated June 1999, and later prepared a draft five-year action plan indicating future priorities and a schedule for implementing several initiatives.

5.16 We encourage Customs to adjust its programs quickly to deal with the changing environment.

Focus of the audit

5.17 The audit examined the way Customs manages the risks posed by travellers and their accompanying goods at the time of their arrival in Canada at legal ports of entry. Other agencies are responsible for the rest of the Canadian border, and for dealing with illegal immigrants on the high seas and people leaving Canada. We did not examine those responsibilities. Nor did we examine commercial operations, which we plan to cover in future audits. Our work focussed on whether Customs had a compliance strategy for responding to the operating environment and making adjustments, how it equips its officers to do their jobs, and how it works with other government departments. We also reviewed CANPASS (Highway), a program to speed pre-approved low-risk travellers through Customs.

5.18 We concentrated on airports, land border ports of entry, and headquarters functions. Further details on the audit are presented at the end of the chapter in the section **About the Audit**.

Observations and Recommendations

Importance of a Compliance Strategy

5.19 A key element of the Customs mandate is to control the entry of persons and goods into Canada through legal ports of entry. Besides administering customs and excise legislation, Customs administers or enforces parts of about 70 other Acts of Parliament. For example, under the *Immigration Act*, Customs inspectors are authorized to act as Immigration officials in determining whether to admit travellers to Canada. On behalf of the Canadian Food Inspection

Agency (CFIA), Customs helps ensure that travellers are not importing animals and plants and their products (including food) that could spread disease or pests to Canadian crops and herds. For Environment Canada, Customs checks that species controlled under the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) have permits to enter Canada. For Health Canada, Customs helps to control the importation of communicable diseases by infected individuals entering Canada and also checks for controlled goods, such as pharmaceuticals.

5.20 Customs is committed to promoting voluntary compliance and self-assessment as the best way to administer the laws protecting Canada's borders. It operates on the assumption that most travellers will comply with the law when they know the requirements. Thus, Customs tries to foster a culture of compliance by educating the public on the one hand and enforcing the law on the other.

5.21 To promote compliance, Customs needs to have a well-articulated and comprehensive compliance strategy. Among other things, this strategy needs to address the responsibilities that Customs carries out for other government departments. Besides serving as a planning document for the Agency, a compliance strategy would help front-line Customs inspectors understand the Agency's mandate and goals. It would also support its reporting to Parliament on performance.

5.22 A compliance strategy would outline the reasons for various activities designed to ensure compliance. It would explain how Customs seeks to integrate activities that promote or encourage compliance — such as educating the public and providing easy-to-use forms — and those that enforce compliance, such as examinations and seizures. A compliance strategy would outline how Customs plans to work with the other government departments for which it carries out responsibilities. It would also discuss the measures and approaches it has already taken, the results it is achieving, and its plans for improvement. It would provide measures of compliance and show how these have changed over time.

5.23 In 1997 the Agency published a compliance strategy for its income tax and excise tax lines of business, but Customs has not yet developed a national compliance strategy.

5.24 Customs should develop and document an overall compliance strategy that clearly describes its plans for encouraging voluntary compliance and outlines its approach to responsible enforcement. The strategy should include the responsibilities it carries out on behalf of other government departments.

Agency's response: *In April 2000, Customs will implement an overall customs compliance strategy incorporating a Customs Compliance Improvement Plan, including other government departments' requirements. The fully integrated national plan will encompass a border and post release verification plan in support of responsible enforcement. As well, the client service component of the overall plan will focus on activities designed to educate and inform so as to promote voluntary compliance by all clients when entering or leaving Canada.*

Customs needs a comprehensive compliance strategy to promote compliance and to address the responsibilities it carries out for other government departments.

Risk assessment is incomplete

5.25 A major part of developing a compliance strategy is understanding what risks exist and how significant they are, and then determining the best way to control them. Customs has defined risk as the likelihood that an event (and its impact) will occur that threatens its ability to protect Canadians' health, safety and economic prosperity and to safeguard Canada's sovereignty. In other words, risk

A major part of developing a compliance strategy is understanding what risks exist and how significant they are, and then determining the best way to control them.

is the chance that illegal activities will occur, such as the smuggling of contraband (illegal drugs, alcohol and tobacco) or the unlawful entry of inadmissible people. Threats to health and safety include the illegal entry of infectious or contagious diseases and other communicable diseases and of firearms.

5.26 Our 1991 Report Chapter 15 on Customs operations noted that there had been no comprehensive assessment of the risk of drug smuggling inherent at various ports. We noted that a risk assessment would better equip Customs to develop and rank control procedures in an action plan for drug interdiction. Since then, Customs has taken several steps to assess the risks it faces.

5.27 In 1996–97, Customs conducted a national assessment of risks at ports of entry. This was based on an assessment at each of 229 ports, including inland offices and mail-processing plants. The assessment rated environmental factors that affect risk at each port, such as population size, volume of traffic and the presence of major access routes to large cities. Customs also assessed the history of enforcement at each port (numbers and types of seizures) and the potential for customs violations, based on knowledge of criminal organizations operating in the area and the potential for conspiracy. Each port was rated using these factors and ranked by level of risk compared with the other ports.

5.28 In 1998, Customs produced a national Contraband Strategy Risk Assessment. The assessment ranked the top modes of transportation at highest risk for contraband. To determine what commodities to include in the assessment and to gauge their relative risk, Customs used four criteria:

- size and extent of the smuggling problem with each commodity;
- degree of harm to society and to the Canadian economy;
- public and government priorities and expectations; and
- vulnerability of processes and controls.

5.29 Besides the risk of contraband and customs violations, Customs must manage other risks posed by travellers and their accompanying goods at ports of entry in the responsibilities it undertakes for other government departments. These other risks, such as entry of inadmissible people and communicable diseases, were not included in either of Customs' national risk assessments. We recognize that Customs is not solely responsible for identifying and controlling the risks associated with other departments' mandates. In our view, the other departments are responsible for ensuring that Customs is fully aware of all the risks that it bears for them so it can include them in its national risk assessment. We were informed that other departments do not provide Customs with an overall assessment of their risks. Since Customs is on the front line and has already developed a major risk assessment for contraband commodities, it needs to strongly encourage all players to work together to identify the risks now missing from its national risk assessment.

5.30 Customs should strive to obtain information from other government departments on the risks arising from the responsibilities it undertakes on their behalf, and should include them in its national risk assessment.

Agency's response: *Customs agrees with the recommendation. By September 2000, Customs will have commenced a dialogue with other government departments for which it undertakes responsibilities and will seek their concurrence to work closely together on a risk management approach to their program needs. These organizations will be encouraged to conduct risk assessments to bring focus to their needs, which in turn will permit Customs to better apply an integrated risk management approach to all enforcement*

and client service responsibilities it undertakes on behalf of other government departments. Customs will also work to capture these issues in memoranda of understanding as opportunities arise.

Customs Inspectors Play a Vital Role

5.31 Customs inspectors have complex jobs. As already noted, along with Customs legislation they must also administer parts of approximately 70 Acts of Parliament for other departments. Inspectors must know about passport and visa requirements and laws governing goods, endangered species, agricultural products, weapons, narcotics and pornographic materials that travellers may carry. For over a century, Customs inspectors have used risk assessment to decide whether to admit a traveller immediately or to undertake a thorough inspection.

5.32 Travellers' contact with Customs starts at the primary inspection line (PIL). At airports and land border ports of entry, the PIL generally consists of a line of booths staffed by Customs inspectors. The PIL inspector determines a person's right to enter Canada and bring in goods. Travellers arriving in Canada by air are asked to complete the Customs Declaration Card before arriving at Customs. The card allows them to have their declarations of citizenship and goods ready for the PIL, where a Customs inspector reviews the declaration and conducts a brief interview.

5.33 At land border ports of entry, travellers approaching the Customs inspection point simply stop at a PIL booth. They remain in their vehicles while the inspector conducts the primary interview. In contrast to the declaration card procedure at airports, the highway interview often involves no documents.

5.34 At ports of entry, the PIL inspector must decide to admit the traveller to Canada or to require a secondary examination for Customs or another government department (for example, Citizenship and Immigration Canada, CFIA or Health Canada). For Citizenship and Immigration, the PIL inspector may refer a traveller to on-site Immigration officials at the port of entry if the traveller's admissibility is in question or if documentation is required.

5.35 The extent of a secondary examination depends on the reason for the referral. In some cases, the Customs inspector may simply ask to see the goods the traveller is declaring. In other cases there may be a thorough examination of the traveller, the goods and, at land border ports of entry, the vehicle.

5.36 At airports, Customs inspectors are usually in the PIL booth or in secondary examination for their entire work shift. At land border crossings, inspectors often rotate out of the PIL every hour and into another phase of the operation, such as secondary examination or handling payments of duties and taxes in the office.

5.37 Customs has informed us that it has stationed inspectors at 13 international airports and 147 land border crossings along the Canada/United States border. Approximately 2,600 full-time equivalent staff process travellers at these locations.

Improvements Needed in Information Sharing, Tools and Training

5.38 Customs inspectors at the PIL must decide quickly whether to let travellers go on their way or to send them for secondary examination. Unlike the Agency's tax operations, Customs must enforce the travellers program at the time and point of arrival. Thus, it is vital that Customs inspectors have the information, tools and training they need to make correct decisions in the short time available.

Customs inspectors must know about passport and visa requirements and laws governing goods, endangered species, agricultural products, weapons, narcotics and pornographic materials that travellers may carry.

Customs must process travellers at the time and point of arrival.

In carrying out responsibilities on behalf of other departments, Customs needs to have formal arrangements and exchange information to ensure that all players understand their roles and responsibilities.

Information sharing and communication

5.39 There is a need to improve the sharing of information within Customs. All levels of the organization across the country need to exchange relevant, reliable and up-to-date information. Officials must have the appropriate information to make the best decisions, whether for determining risk, choosing areas to target for possible non-compliance, or deciding whether or not a traveller is complying with the law.

5.40 Customs obtains and produces a lot of information, such as its policies and procedures, lookouts (information on a person, goods or a vehicle suspected of contravening a law for which Customs and/or other government departments are responsible), and intelligence bulletins on recent seizures of contraband and methods of concealment. Inspectors also provide intelligence information and enforcement actions to regional intelligence officers and analysts. Customs communicates this information through computer systems, publications, meetings and other avenues.

5.41 Staff at various levels want to improve the sharing of information. To illustrate:

- The 1999 Blueprint consultation report (see paragraph 5.15) states that staff strongly recommend improving internal communication, including sharing data and strengthening linkages within Customs.

- At a recent airport managers' conference, Customs managers recommended using regular conference calls to discuss information sharing, best practices, issues and problem solving.

- Staff we interviewed wanted either daily team meetings or short weekly briefings.

5.42 Customs needs to improve communication with other government departments. In carrying out responsibilities on behalf of other departments, Customs needs to have formal arrangements and exchange information to ensure that all players understand their roles and responsibilities and are up-to-date on issues.

5.43 Our September 1999 Report Chapter 14, National Health Surveillance, pointed out how serious the lack of understanding of responsibilities can be. We noted an incident where Customs had detained an arriving air passenger suspected of being infected with a dangerous disease; the other passengers were released. The individual was eventually examined by Health Canada officials and then released. At the time, there was no special protocol at the airport that clearly specified roles and procedures for dealing with such incidents, and officials were confused about who had what authority. No one consulted federal quarantine officials about either the initial detention of the individual or the release of the other passengers. Customs inspectors at the port did not know that a Canadian contingency plan for dealing with dangerous communicable diseases even existed. Protocols have since been negotiated at four major international airports. Furthermore, in March 1999, Customs issued interim instructions to its officials for situations involving travellers who could be carrying infectious diseases. As well, Customs is currently working on a formal memorandum of understanding (MOU) with Health Canada.

5.44 In administering parts of other departments' legislation, PIL inspectors either make decisions themselves or refer certain cases to the departments for advice or examination. Since many departments do not work the same hours as Customs, information sharing can sometimes be complicated. To assist its inspectors, Customs often provides them with local instructions (including contact numbers where available) for making referrals to other departments not on the site when travellers are being processed.

5.45 Periodically, Customs' relationship with Immigration has been strained at some ports of entry. As one means to maintain good relations, Customs encourages its staff to share more information with Immigration. We noted several examples of staff from the two departments working closely together to understand each other's responsibilities. Many employees of both departments report that the relationship has improved. Customs and Immigration also hold monthly national meetings to promote communication, discuss various issues and projects, and monitor the results. Those attending the meetings generally agree that there has been noticeable progress in working together. But work is still needed to ensure that collaboration continues and remaining irritants are resolved.

5.46 To further clarify its roles and responsibilities in providing services to other departments, Customs has entered into MOUs with departments. It is currently revising MOUs with some departments and negotiating new ones with others.

5.47 Work began in 1995 to update the1983 MOU with Immigration. In the summer of 1998, the regions provided feedback on a draft of the revised MOU. As recently as October 1999, Immigration noted in a meeting with Customs that it intended to provide Customs with a proposal for further revising the MOU. This whole process is taking much too long, and we think both departments need to resolve the matter on a priority basis.

5.48 Customs needs to further improve communication with other enforcement agencies. Illegal movements of goods and people respect no boundaries, and represent a high risk for Customs operations. In an effort to control these activities, Customs shares information with other enforcement agencies, both domestic and foreign. For example, on 24 February 1995, Canada and the United States agreed to establish the Accord on Our Shared Border. Under the Accord both governments agree to, among other things:

- enhance protection by focussing more effective inspection efforts on drugs, smuggling, and illegal or irregular movement of people; and

- reduce costs for both governments by sharing research and development, equipment, facilities, information and training.

5.49 In 1997 the Canada-United States Cross-Border Crime Forum was established to consult on cross-border crime. Canadian and American representatives from several different agencies sit on various subgroups, such as the Joint Intelligence Committee and Joint Targeting Board. These groups carry out projects and report their findings/recommendations at the annual meetings of the Crime Forum. The recommendations point to the need to enhance and expand communication among law enforcement agencies in both countries.

5.50 Customs should:

- **improve the sharing of information among all levels of its field operations; and**

- **complete or update on a priority basis formal memoranda of understanding with other government departments on whose behalf it acts.**

Agency's response: *Customs will continue to make efforts to improve the sharing of information among all levels of field operations, through formal distribution of policies and procedures and through the provision of training on new initiatives.*

Customs will continue to work closely with other government departments on whose behalf it acts, to develop or update on a priority basis formal memoranda of understanding.

Work began in 1995 to update the 1983 Memorandum of Understanding with Immigration.

Tools for Customs inspectors

5.51 Customs inspectors require tools like computer systems and supporting enforcement units to help them decide whether or not to allow travellers and their goods into Canada.

5.52 The Primary Automated Lookout System-Air (PALS-Air) is outdated. Customs inspectors on the primary inspection line (PIL) at the major airports use the PALS-Air computer system, which they activate by scanning a person's passport or manually inputting the name and date of birth. The system compares this information with Customs and Immigration enforcement data in an Immigration database. It also compares it with "lookouts" (information on persons suspected of contravening an Act administered by Customs and/or other government departments). Lookouts may be put into the system at the local, regional or national level at any time. PALS-Air then provides possible name matches to help the PIL inspector determine if the person should be sent for secondary examination.

Customs inspectors' use of the PALS-Air computer system is low.

5.53 PALS-Air has been used in airports and bus terminals since 1991. The system is slow, cannot read bar-coded documents (other than passports) and relies primarily on a monthly bulk transfer of lookout and enforcement information rather than a direct link. Therefore, PALS-Air is an outdated tool for identifying high-risk travellers. We noted that Customs inspectors' use of the system is low. In October 1999, for example, inspectors at the major airports used PALS-Air for 5.8 percent to 43.2 percent of travellers passing through the PIL. Customs plans to replace PALS-Air in 2000 with the Integrated Primary Inspection Line (IPIL) system, which it is currently testing.

5.54 Limitations of PALS-Highway. At land border crossings, Customs uses the Primary Automated Lookout System-Highway (PALS-Highway) at the primary inspection line. The system reads licence plates and compares them against a database, checking for previous enforcement actions and/or lookouts associated with vehicles — but not necessarily with the travellers in the vehicles.

5.55 Customs inspectors must ensure that the licence plate on the vehicle matches what the licence plate reader records, so the PALS-Highway system can access any available information on the vehicle. We found that the automatic readers read the licence plates correctly about 70 percent of the time. For the remaining 30 percent of the time, especially in bad weather, Customs inspectors have to manually correct what the licence plate reader has recorded. This happens often enough to be bothersome and time-consuming.

5.56 Targeting is valuable. Customs finds targeting a valuable method of identifying high-risk travellers. Targeting is the review of available data in order to identify high-risk travellers before they arrive. For example, analyzing appropriate information can help determine that a known drug trafficker has just visited a country known to be a source of heroin and is returning to Canada.

5.57 Customs uses targeting in several different ways, supported by specialized intelligence units and enforcement units and by databases such as the Canadian Police Information Centre (CPIC). Regional intelligence units, staffed by officers and analysts, are involved in such activities as:

- providing front-line inspectors with lookout information for interdiction;
- receiving, analyzing, evaluating and disseminating intelligence information gathered from various sources for targeting;
- conducting risk assessments; and

- co-ordinating joint forces operations with other government departments and law enforcement agencies.

5.58 Customs uses flexible response teams, one type of specialized enforcement unit, to target high-risk travellers and support the front-line inspectors. Each team consists of a small group of inspectors headed by a superintendent. The teams are flexible in that they have the mobility, equipment and training to help interdict all types of contraband. They can respond quickly to assist with enforcement needs at ports of entry in their respective districts. Their responsibilities include:

- roving to identify high-risk travellers at airports;
- conducting intensive secondary examinations; and
- acting in joint enforcement operations with other government departments and outside agencies.

5.59 Customs also uses dogs to detect illegal drugs concealed on travellers or in their baggage or vehicles. The dogs are used in the PIL and in secondary examinations.

5.60 Information for targeting air passengers is poor. Passenger information received in advance of the passenger's arrival (such as full name, date of birth, travel routes and details of ticket purchase) would be very useful for targeting air travellers. There are Customs targeting units at airports in Toronto, Montreal, Vancouver and other locations. Customs officials at these airports have ad hoc arrangements with certain carriers that enable them to receive, at the carrier's discretion, information on passengers shortly before they arrive. In general, however, Customs work is hampered by a lack of timely information on air passengers. To improve its chances of identifying high-risk travellers while reducing the time spent processing low-risk travellers, Customs must be able to obtain and analyze advance information on passengers. It considered this possibility in "Customs 2000: A Blueprint for the Future" but did not pursue the initiative at the time. Customs is now in the process of recommending changes to the *Customs Act* to enable it to obtain passenger information in advance. This is one of the major initiatives in its draft five-year action plan. Given the potential advantages, Customs needs to place a high priority on obtaining this information.

Customs' flexible response teams can respond quickly to assist with enforcement needs at ports of entry in their respective districts.

5.61 Better targeting for examinations needed. Traveller compliance with rules and regulations of Customs and other government departments is assessed during a "stint" by referring travellers at random to secondary examination. A stint measures performance and is conducted periodically at Customs ports by a team of staff. In 1998–99, compliance by highway travellers was assessed at 97.7 percent. (No results were available for air travellers, as Customs conducted no stints at airports that year.) Stints conducted over the years show that travellers' compliance at land border ports and airports has increased.

5.62 The number of travellers inspected in secondary examinations has increased by 109 percent over an eight-year period (see Exhibit 5.2). The same period saw an 18 percent decrease in the number of travellers entering Canada. This means that a traveller has a higher chance of being examined now than eight years ago. Meanwhile, the number of enforcement actions has declined by 63 percent over the last eight years. In fact, the actual "hit" rate for 1998–99 was 1.9 percent. In other words, officers examined the luggage, vehicle or person of about 50 travellers for every one they found who had not complied with Customs requirements. About 25 percent of enforcement actions involved high-risk infractions like bringing in drugs, undeclared weapons and jewellery. The declining hit rate could be due to several

Customs work is hampered by a lack of timely information on air passengers.

factors, such as increasing levels of traveller compliance or problems in targeting. In our view, better targeting by Customs officers could reduce the number of travellers sent to secondary examination, without sacrificing the Agency's enforcement objectives.

A traveller has a higher chance of being examined now than eight years ago.

5.63 There are problems with a key information system. To enhance targeting and better detect contraband and inadmissible persons, Customs needs information on travellers. This includes information on criminal records, drivers' licences and vehicle plates, stolen vehicles, arrest warrants, missing persons and property, firearms and missing children. The RCMP administers the special services that provide this information. Chapter 7 of this Report, RCMP — Services for Canada's Law Enforcement Community, notes that there are several serious problems with the system that provides the information. For example:

- There have been delays of two months to more than five months in entering records of new criminals and new crimes of "old" criminals into the system.

- A study completed in 1999 noted that the system is accessible only about 89 percent of the time and projected a further decrease in the availability of information to front-line law enforcement.

5.64 Until the RCMP resolves these problems, the effectiveness of Customs detection and targeting efforts could be severely hampered. This increases the risk that contraband and inadmissible travellers will enter Canada.

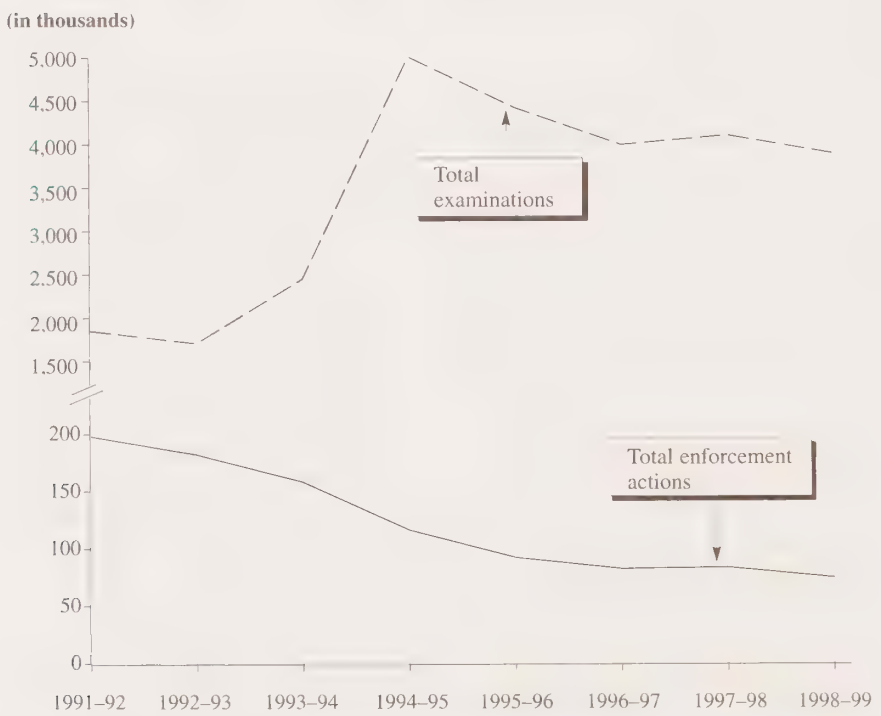
5.65 Customs should:

- **complete as soon as possible the installation of the Integrated Primary Inspection Line system at the airport primary inspection lines;**

- **explore the possibility of improving the automated licence plate reader in the Primary Automated Lookout**

Exhibit 5.2

Enforcement Actions Resulting From Examinations



Source: Canada Customs and Revenue Agency

System-Highway to make it more reliable; and

- **place a high priority on obtaining advance information on passengers for targeting efforts.**

Agency's response: *National implementation of the Integrated Primary Inspection Line system (IPIL) is scheduled to commence on 1 August 2000.*

Customs is actively pursuing with the vendor of the equipment improvements to the automated licence plate reader in the Primary Automated Lookout System-Highway.

As part of the Blueprint exercise, it has been proposed that Customs obtain advance passenger information to assist its targeting efforts. Consultation has been completed and implementation will be subject to supporting legislation.

Training needs of Customs staff

5.66 Training is a key element in providing Customs staff with the knowledge and skills to speed the entry of travellers and manage risk.

5.67 Customs has designed a number of courses to train staff who process travellers. These courses may be offered at the Agency training facility in Rigaud, Quebec, in the regions, or at the ports. Some courses are mandatory, such as the 14-week induction course for new recruits. The course informs new indeterminate staff of their responsibilities in traveller and commercial processing. It has components that cover, for example, prohibited goods, drug enforcement, cultural awareness and Customs' work on behalf of other government departments. After this induction course, there are discretionary, refresher or in-depth courses offered in a number of areas. In 1998–99, 393 staff members received mandatory training at the college in Rigaud.

5.68 In addition to formal training opportunities, Customs has developed self-study packages, videos, and written procedures. A few training courses are also available in CD-Rom format and on the Agency's intranet. These are useful training media. Customs informs us that it is working to expand its self-directed training courses to provide "just in time" learning as close to the workplace as possible. Formal classroom training provides the added benefit of interaction with an instructor and conveys the importance that management attaches to the issues covered in the course.

In addition to formal training opportunities, Customs has developed self-study packages, videos, and written procedures.

5.69 Certain constraints limit the number of staff who can take available courses. Customs ports normally operate 7 days a week, 24 hours a day. When staff are absent on training, others must fill their positions. If this results in overtime, it puts a strain on the port budget. As well, courses at headquarters and in the regions offer only a few seats for each port. Because of these constraints, advance planning of training is crucial. However, none of the staff we interviewed has a training plan. In addition, many expressed concerns about the way available training is allocated. Furthermore, Customs has not maintained accurate training records to help management determine whether employees have received the training they need. After our audit, Customs informed us that it plans to introduce competency self-help kits to all employees by March 2000. These will allow employees and managers to identify gaps in competency and to base training on employee needs. In addition, Customs told us that the current training system will be replaced in April 2000 with a newly developed training management component of the Agency's Corporate Administrative System.

5.70 **Need to improve relevance of training.** As already noted, Customs provides a mandatory 14-week course to new indeterminate employees. The course covers the work requirements for Customs' modes of operations — air, highway and commercial. Customs has decided that the

Sixty percent of the staff we interviewed had not received Immigration refresher training.

current design of the course is no longer appropriate, as no staff work in all modes. It has consulted with the regions and is now revising the course to focus on specific modes of operations. Customs expects to offer a pilot version of the new course in May 2000.

5.71 Indeterminate staff are often recruited from term employees, but first they have to pass the 14-week course. Many term employees have already gained considerable on-the-job experience that is repeated in the 14-week course. The revised course needs to be tailored to the participant's knowledge level.

There is no training course designed specifically for term employees.

5.72 Consistent training not provided. Term employees represent 12 percent of the work force. They are an important part of port operations because they assume the responsibilities of indeterminate staff who are on long-term leave. Yet there is no training course designed specifically for them. Instead, they often receive the same initial training as students.

5.73 Students are also essential to Customs operations. They help in processing higher volumes of traffic at the PIL during the summer months, and fill in for inspectors on vacation. Training is important because it informs students about the complex requirements of Customs and other government departments in processing travellers, and helps them identify non-compliance. Although headquarters has developed a three-week course for new students, local ports sometimes shorten it to two weeks. After classroom training, students are expected to "shadow" or work closely with a regular Customs inspector. We noted that the time spent shadowing has varied from one day to one week. Refresher training for returning students also varied, from none at all to two weeks. Because students lack experience but make critical decisions at the PIL, we are concerned that reduced training time could pose an unnecessary risk for Customs.

None of the staff we interviewed had taken a course in vehicle examination.

5.74 Ongoing training is needed. Given the nature of Customs operations and the changing environment for enforcement, ongoing training is essential to keep skills up-to-date. However, apart from the initial 14 weeks of induction training, many long-term staff we interviewed had not received refresher training in the functions Customs performs for other departments. For example, 60 percent of the staff had not received Immigration training. Yet under the MOU with Citizenship and Immigration, Customs inspectors assigned to processing travellers are to receive training to maintain and upgrade their skills at least every three years.

5.75 We also found that after induction training, only 18 percent of the long-term staff we interviewed had taken cultural sensitivity training to help them deal with travellers from other countries, while 44 percent had received training in Aboriginal and native issues. During a recent study of visible minorities, some participants said that Canada Customs treats them differently from Canadian residents who are not members of a visible minority. From analyses of complaints made to regions and headquarters, we also found that intimidation, rudeness and offensive behaviour by officers was the largest category of complaint.

5.76 In our 1991 Report we noted the need for a Customs course in traveller vehicle examinations. However, none of the staff we interviewed had attended such a course, even though this is a large part of the work at land border crossings.

5.77 Staff we interviewed also expressed a need for ongoing training in drug enforcement. Fewer than 50 percent of the long-term staff we interviewed had taken a course in this area, apart from their initial induction training. After our audit, Customs informed us that it is developing new drug training modules and has already piloted and implemented some

of them. Staff we interviewed also expressed concern about the lack of training in changes to the Integrated Customs Enforcement System. Such training would allow them to use the system to maximum benefit.

5.78 We also noted a 1996 ruling by the British Columbia Supreme Court on a case related to a commercial shipment of books. The Court found that Customs officers lacked the necessary training to carry out their duties with respect to pornography. In response, Customs instituted new procedures for dealing with such materials. It also provided staff with a series of written directives, and established experts in each region to assist officers in identifying pornography and to provide information and training.

5.79 Customs should ensure that:

- **the training needs of all employees are assessed on a regular basis, training plans are developed annually and appropriate training is provided in a timely manner;**
- **training for term and student employees takes into account their skills, experience and the job requirements; and**
- **training records are complete and are used to assess whether employees have received the training they need.**

Agency's response: *At the national level, Customs will, within the next year, create a learning strategy for the program that will outline priorities and plans for training and learning in response to our current and emerging needs. We will update it annually.*

Customs will evaluate the situation concerning training of term employees and students and will develop a framework for a nationally consistent approach.

Customs will continue to ensure that training records are complete and that employees receive the training they need. A new component of the Corporate Administrative System (CAS) will be introduced on 1 April 2000 that will allow for the efficient planning and managing of training activities and for the accurate reporting at the local, regional and national levels.

Expediting Travellers — CANPASS (Highway)

Customs needs to protect Canada's borders, but it also needs to ensure that honest travellers can enter Canada as quickly as possible.

5.80 Customs needs to protect Canada's borders, but it also needs to ensure that honest travellers can enter Canada as quickly as possible. One of the initiatives to accomplish this is the CANPASS (Highway) program. Although its concept is sound, we have concerns about the way CANPASS has been implemented, partly because the Customs operating environment has changed.

5.81 The CANPASS (Highway) program was first introduced at the Douglas, British Columbia border crossing in 1991 as a response to the major traffic volumes of cross-border shoppers at that time. The program allows qualified travellers to enter the country using designated express lanes, normally without being interviewed by a Customs inspector. Canadian and U.S. citizens and residents qualify for CANPASS if they do not have a criminal record and have not been found violating Customs or Immigration legislation. Also, Customs provides CANPASS members who are Canadian citizens and permanent residents with self-declaration cards for declaring purchases. Duties and taxes owing are then charged to the members' credit cards. With faster processing of these low-risk travellers, Customs and Immigration personnel should be able to focus on travellers who present a higher risk.

5.82 Since 1991, CANPASS (Highway) has been expanded to 10 other locations. The purpose of the expansion was to:

- expedite low-risk travellers;

- free up resources and move them to higher-risk areas; and
- meet Canada's commitments under the Canada/U.S. Accord on Our Shared Border.

Cost savings have not yet been achieved

The potential of CANPASS (Highway) remains unrealized.

5.83 The potential of CANPASS (Highway) remains unrealized, and the anticipated savings have not yet materialized. One of the original objectives of CANPASS was to free up resources that could then be reallocated to higher-risk areas. This would be accomplished by having an officer monitor more than one CANPASS lane. However, the current volume of CANPASS vehicles (as shown in Exhibit 5.3) is too low to warrant more than one designated lane, except at the Whirlpool Bridge in Niagara Falls. Moreover, in the year after the Whirlpool Bridge was designated a CANPASS-only border point, vehicle traffic there dropped by 63 percent from the previous year, due in part to CANPASS. We also note that two ports with CANPASS since 1995 no longer have separate CANPASS lanes because of insufficient use. As well, two other CANPASS locations do not have a separate CANPASS lane.

Exhibit 5.3

CANPASS Vehicles Processed as a Percentage of Total Vehicles

CANPASS ports	1998–99
Douglas, B.C.	26%
Boundary Bay, B.C.	16%
Pacific Highway, B.C.	n/a
Huntingdon, B.C.	n/a
Lacolle, Que.	1%
Osoyoos, B.C.	n/a
Aldergrove, B.C.	n/a
Whirlpool Bridge, Ont.	95%

n/a – A separate CANPASS lane does not exist

Source: Canada Customs and Revenue Agency

5.84 We identified a number of possible reasons for the lower than expected use of CANPASS (Highway):

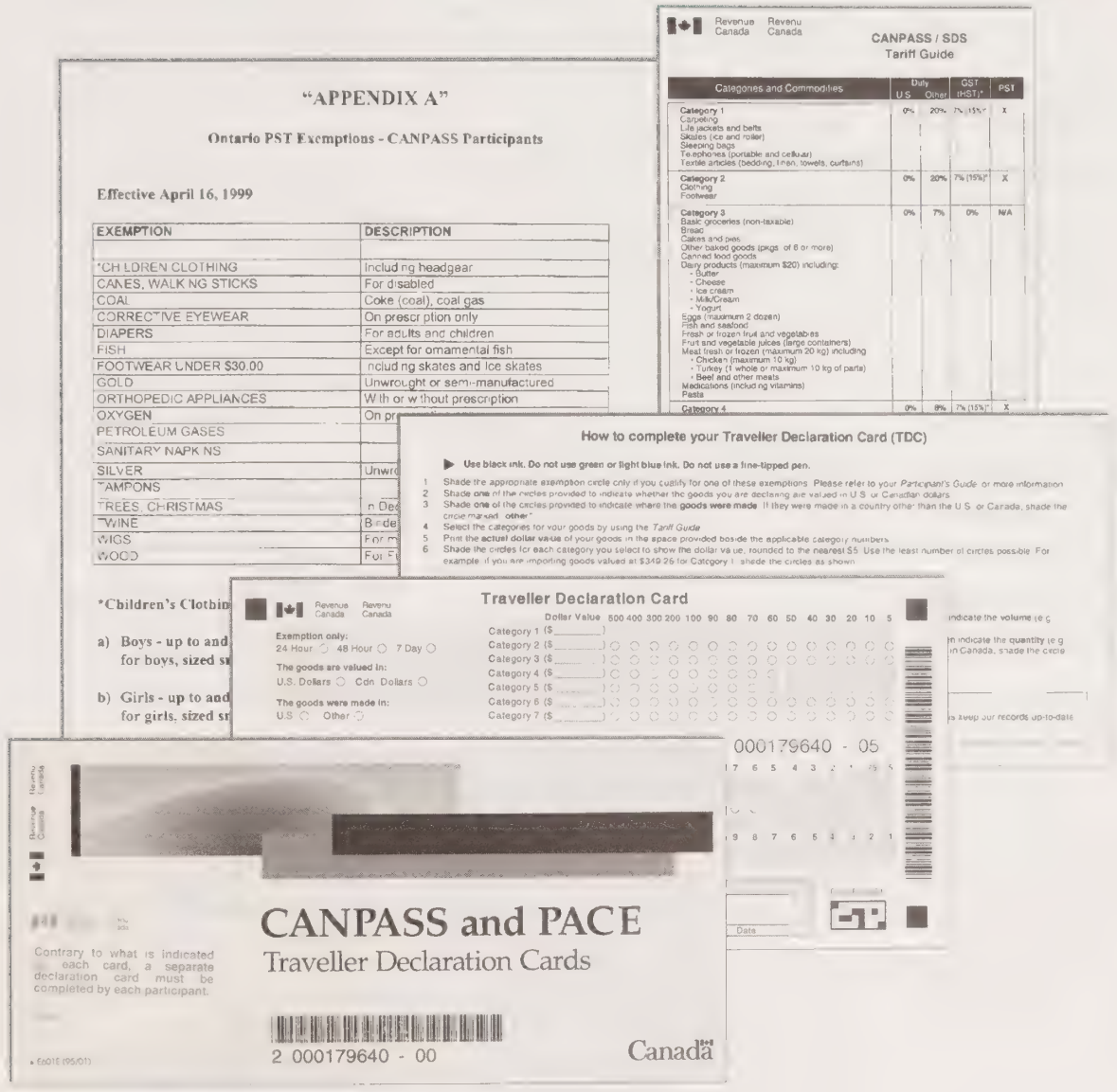
- Many of the CANPASS ports have facility constraints that hamper access to the CANPASS lane. For example, the bridge and tunnel crossings in Fort Erie and Windsor have facility constraints that force CANPASS members to wait in line-ups with regular traffic. Much of the relative success at Douglas, the initial CANPASS site, is because the CANPASS lane is accessible.
- The cross-border shopping phenomenon peaked in 1991. Since then, the number of travellers entering Canada by highway has declined by 27 percent. Consequently, less congestion at most land border crossings has reduced the potential benefit of CANPASS to travellers.
- Some travellers may be reluctant to provide Customs with a credit card number and to undergo the mandatory security check, which involves screening for a criminal record and for Customs and Immigration violations.
- Some travellers may find the self-declaration card, shown in Exhibit 5.4, complicated and time-consuming to complete.

5.85 Further, decisions to expand the CANPASS (Highway) program were made without benefit of feasibility studies to provide essential information, such as the number of potential participants, a marketing strategy and anticipated reductions in waiting time at the PIL. A feasibility study could also have indicated the impact of facility constraints, the cost of the expansion and projected future savings.

5.86 Customs informs us that CANPASS (Highway) will be expanded to the Bluewater Bridge in Sarnia in the summer of 2000, as a harmonized pilot project with the United States. However, we note again that a feasibility study was not conducted before the decision was

Exhibit 5.4

Traveller Declaration Paper Work



Step 1: The purchases must be categorized by country of fabrication (either U.S. or other).
Step 2: A separate Traveller Declaration Card must be completed for U.S.-sourced goods and those from other countries.
Step 3: Purchases must be categorized by type of product (according to the CANPASS Tariff Guide).
Step 4: The purchases must then be totalled by category of good.
Step 5: Actual dollar values and the rounded dollar value must be recorded for each category.
Step 6: The traveller must also determine which goods are provincial sales tax (PST)-exempt.
Step 7: Actual dollar values and the rounded dollar value of PST-exempt goods must be recorded.

made to expand the program to this site. Customs has stated that the Sarnia project will be evaluated jointly to determine the best possible approach to harmonization, and a planned expansion to 12 other sites depends on the outcome of that evaluation.

Lessons learned were not incorporated during expansion of CANPASS (Highway)

5.87 In 1991, we reported on special-lane and express-lane pilot projects at four ports in southern Ontario. We concluded, based on low usage of the lanes, that the projects were not successful due to lack of pre-planning and to facility constraints. Both the Agency's Internal Audit Services Division and the Customs evaluation unit have expressed similar concerns about CANPASS.

Although it introduced CANPASS (Highway) in 1991, Customs did not establish performance targets until 1999.

5.88 There are also lessons to be learned from the current CANPASS (Highway) operations. The low rate of use at the Pacific Highway border crossing was partly due to its proximity to the CANPASS port in Douglas. The planned expansion of CANPASS to a second port in Lacolle, Quebec, and to the Queenston-Lewiston Bridge near Niagara Falls, Ontario could face the same problem. Interestingly, a similar American program to facilitate travellers at the Windsor Tunnel was discontinued because of low use. One year later, Customs introduced CANPASS at that same location. After our audit, Customs informed us that CANPASS has been expanded not only on the basis of traffic volumes but also to provide equal client service at similar ports.

Lack of performance targets to determine success of the CANPASS (Highway) program

5.89 Although it introduced the CANPASS (Highway) program in 1991, Customs did not establish performance targets to judge its success until 1999. In the meantime, it had expanded CANPASS to seven sites, with considerably less success than at the initial site. Customs expanded the program to another three sites in August 1999. Good performance information would have alerted it to the need to determine why travellers were reluctant to participate, and might have led to improvements in the program.

5.90 The 1998–99 target for CANPASS (Highway) use was 10 percent of traffic volume. It is not clear how Customs could measure performance against this target at the four ports that have no separate CANPASS lanes and no way of recording CANPASS use. Nevertheless, Customs' 1999–2000 Report on Plans and Priorities states that 10 percent of travellers entering Canada by highway in 1998–99 used CANPASS. We note that this applies only to ports where CANPASS service exists.

5.91 Customs should:

- **determine the future need for the CANPASS (Highway) program before expanding it any further; and**
- **develop meaningful performance indicators for any new initiatives at an early stage and use those indicators to measure the success of the initiatives before expanding them.**

Agency's response: *As part of Customs activities under the Canada/U.S. Accord on Our Shared Border (ACCORD), a commitment has been made to develop a framework and conduct an evaluation of the Harmonized Highway Pilot with the assistance of an independent consultant. Future decisions for expansion of such CANPASS programs will be based on the findings of this evaluation.*

Customs has had a process in place since 1998 to develop detailed performance indicators for new traveller initiatives that form part of the CANPASS project. Customs will continue to develop and refine meaningful performance indicators to determine achievement of project

objectives and to recommend program adjustments.

Measuring Performance

5.92 To ensure that it is not delaying travellers unnecessarily and is detecting non-compliant travellers, Customs needs to gather credible and reliable performance information from the ports where travellers are processed.

5.93 Customs uses two main methods to measure its performance — ongoing data collection at ports of entry and periodic evaluation by means of "stints". A stint measures performance and is conducted periodically at Customs ports by a team of staff.

Customs has established a number of performance indicators

5.94 In 1997, we issued a report on the concepts behind good performance reporting (Chapter 11, Moving toward Managing for Results). At that time, we recognized the commitment of Customs' senior management to the concept of performance measurement, and the value of the stint in measuring performance.

5.95 Customs has developed three performance indicators to measure its success in expediting compliant travellers: traveller wait time, client satisfaction and CANPASS use. To measure the effectiveness of its enforcement actions, Customs uses three other performance indicators — traveller compliance, examination rate and hit rate. While we recognize these efforts to develop performance indicators, including targets, we have some concerns about how Customs measures performance against them and subsequently analyzes the information.

Weaknesses in measurement

5.96 Aside from the problems we noted earlier in measuring the success of CANPASS (Highway), we noted other weaknesses. One of the crucial performance indicators is "wait time", or the amount of time that a traveller has to wait in line before the first contact with a Customs inspector at the PIL. Current wait-time targets are 20 minutes at all ports on weekends, and 10 minutes at land border ports on weekdays. Customs decided not to measure wait times for 1998–99 so it did not report national wait-time results for either air or highway travellers. As well, across the country it is phasing in a new method of measuring wait time.

5.97 Customs measures client satisfaction by conducting detailed surveys as part of the stint process. It reported client satisfaction at 92 percent for 1998–99. However, this result is based on only one of many questions in the survey. When travellers are asked about their overall satisfaction with Customs, satisfaction drops to 84 percent across Canada.

Customs measures client satisfaction by conducting detailed surveys as part of the "stint" process.

Important information not gathered

5.98 Customs carries out an important part of its work for other government departments. In 1998–99, it recorded about 1.9 million referrals to Immigration, 180,000 referrals to the CFIA, and 54,000 to other government departments. However, Customs does not capture information on the results of those referrals. Consequently, it does not have systematic performance information on how well it is carrying out this part of its responsibilities.

Customs does not have systematic performance information on how well it is carrying out its responsibilities for other government departments.

5.99 A key feature built into the PALS-Highway system is the random selection of vehicles for secondary examination as they come through the PIL. Although Customs recognizes that random sampling is an integral part of measuring performance, we noted that not all randomly selected vehicles are sent for secondary examination and no statistics are kept on this. Nor are the results of secondary examinations of random referrals analyzed to monitor compliance

levels or possibly identify new areas of risk. Information on results could also be used to compare the effectiveness of random referrals with referrals selected by Customs inspectors.

Better systems are needed to provide performance information

5.100 In our 1997 Report Chapter 31, we noted that Customs' information systems were inadequate for monitoring performance, and this had an impact on efficient and effective use of resources. Our current audit found that this is still the case.

5.101 Customs collects several statistics on activities at the local port level. These statistics are entered monthly on a "G11" system. Compiling the information involves extensive manual tallying of source documents, daily statistics sheets and logbooks. This is time-consuming, and the results are highly susceptible to errors in counting and recording. Information that is available in computerized format is not rolled up monthly by the systems, so it has to be done manually.

5.102 Our audit also found that the G11 system cannot be closed off, thus permitting changes after year-end without providing an audit trail. We noted that plans to replace the G11 system with a new system called MIDAS (Management Information Decision Assist System) have been delayed for a number of years. Current plans are to implement MIDAS by 2004.

5.103 The number of stints dropped from 56 in 1996–97 to 12 in 1998–99 (see Exhibit 5.5). As already noted, no stints were conducted at airports in 1998–99. Customs plans 17 stints in 1999–2000, but none in the Atlantic region. When performance is measured at only a few Customs ports, we question whether the results apply nation-wide.

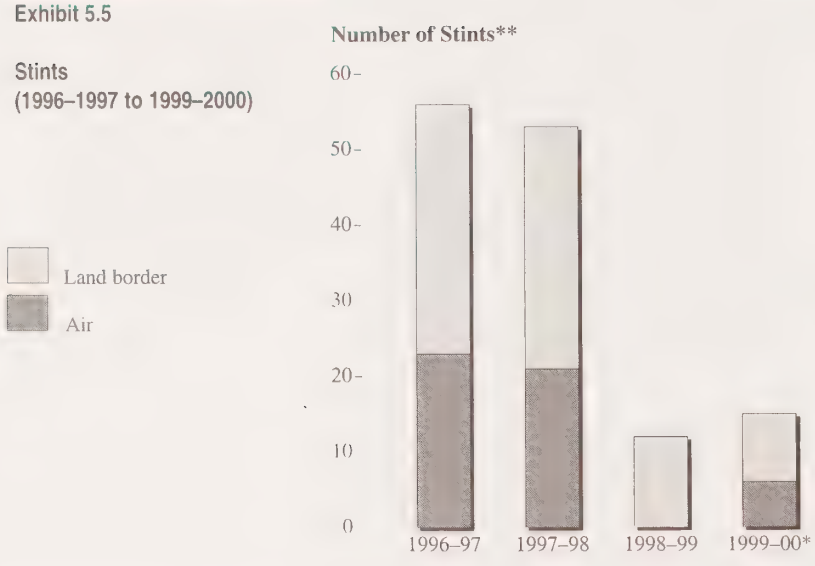
5.104 Customs should:

- **improve the way it measures and reports client satisfaction;**
- **gather and analyze performance information on the responsibilities it carries out on behalf of other government departments;**
- **make better use of the random selections built into its system and monitor and analyze the results; and**
- **improve the systems it uses to gather and report performance information, in order to improve efficiency and the integrity of the data.**

Agency's response: *Customs has initiated the Performance Management Project to improve results-based performance reporting across the programs. As part of this initiative, Customs will actively pursue improvements to the way it measures and reports on client satisfaction. We will ensure that this is done in conjunction with the balanced scorecard methodology adopted by the Agency.*

Exhibit 5.5

Stints
(1996–1997 to 1999–2000)



* 1999–2000 projected stints

** A stint measures performance and is conducted periodically at Customs ports by a team of staff.

Source: Canada Customs and Revenue Agency

Customs will continue to make efforts to improve the presentation and analysis of information required for evaluating programs it carries out on behalf of other government departments.

Customs will explore ways of using the random selections that are built into our current systems to measure compliance and conduct detailed analysis of the results.

Customs is currently working to enhance its current information systems and will explore opportunities to develop new ones that will improve the efficiency and integrity of program volumetrics and performance measurement data.

Reporting on performance

5.105 Under its governing legislation, the Agency is required to establish performance indicators and report on its performance toward its objectives and expected results. Many stakeholders — such as Parliament, the travelling public, other government departments and the airlines — have an interest in this information. Customs needs to consult with them in developing its performance indicators. It is important that Customs correct the deficiencies we have noted in measuring and analyzing the results, so it can be in a better position to report on performance as required by its Act.

Conclusion

5.106 Customs is not a new business — it has been protecting Canada's borders and facilitating trade and tourism for over a century. However, the environment in which it works is undergoing rapid changes, and Customs is trying to keep pace. Dealing with travellers coming into Canada by the various ports of entry involves integrating facilitation and enforcement. Customs must ensure that it does not become a roadblock to legitimate tourism and trade activity; at the same time, it must protect the country against inadmissible travellers and contraband. An overall compliance strategy and a risk management approach are keys to accomplishing this.

5.107 We found that Customs has established means to manage the risk of non-compliance by travellers at the time they enter into Canada. However, significant improvements are needed. Customs does not have a comprehensive compliance strategy to articulate how it both promotes and enforces compliance of travellers entering Canada. Customs has produced risk assessments for its own operations. However, the assessments are incomplete. While Customs consults with other government departments on specific issues and projects, it needs to work more diligently to obtain information from other government departments on the risks arising from the responsibilities it undertakes on their behalf. It needs to include those risks in its national risk assessment. Further, Customs does not have current memoranda of understanding with other government departments on their respective roles and responsibilities. To help its inspection officers make correct decisions in the short time available to them, Customs provides information, systems and training. However, the information is not shared consistently, the systems need improvement and training is uneven. In addition, Customs has established performance indicators, but does not measure and analyze the results of certain referrals or gather performance information efficiently.



About the Audit

Objectives

The objective of the audit was to assess whether Customs has adequate procedures and policies to manage the risk of non-compliance by travellers at the time of their entry into Canada..

Scope

In carrying out the audit we focussed on the following areas:

- whether Customs has established and implemented an overall compliance strategy for its travellers operations.
- the work Customs does with other government departments in carrying out responsibilities on their behalf.
- whether Customs provides its staff with adequate information, tools and training to do their job.
- whether Customs is appropriately measuring the results of operations and reporting performance.

Our examination was conducted in Customs' headquarters in Ottawa and at various regional offices, airports and land border ports of entry across Canada that are involved with the travellers program. The audit excluded a review of operations at marine and rail ports of entry. Our work included interviewing employees, reviewing relevant processes and documents, and observing operations at ports of entry. To determine the extent to which Customs training meets the needs of staff, we interviewed staff at all levels and reviewed training records at each of the ports we visited. Also, we interviewed staff in several other government departments at head office and at various regional and local offices.

On 1 November 1999, Revenue Canada became the Canada Customs and Revenue Agency (the Agency). In this chapter all references to the Agency include the Agency and its predecessor, Revenue Canada.

Criteria:

We expected that:

- Customs would have risk assessment and targeting processes that effectively differentiate between low-risk and high-risk travellers;
- Customs would appropriately plan and implement its new initiatives in alternative ways to process travellers and monitor results, thus ensuring that it is reaching its goals;
- Customs would have appropriate and complete performance indicators for its traveller processing to provide the information needed to measure the extent to which it is managing risk;
- Customs would have mechanisms and processes in place to ensure that it is appropriately managing risks arising from the responsibilities it carries out on behalf of other government departments; and
- Customs would ensure that management and staff are able to acquire and maintain the knowledge and skills needed to fulfil their role in risk management.

Audit Team

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Chapter 6

Canada Customs and Revenue Agency and Department of Finance

Handling Tax Credit Claims for Scientific Research and Experimental Development

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.

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Canada Customs and Revenue Agency and Department of Finance

Handling Tax Credit Claims for Scientific Research and Experimental Development

Main Points

6.1 In 1994 the government restricted the period for filing tax credit claims for scientific research and experimental development (SR&ED) to 18 months after the year in which taxpayers incurred them. The Canada Customs and Revenue Agency then received 16,000 additional claims, which represented $2.8 billion in credits for taxation years as far back as 1985.

6.2 Our audit revealed significant inconsistencies in the handling of these claims. These inconsistencies compromised the fairness of the review process. In addition, serious professional differences of opinion arose within the Agency on how to resolve a dispute with a claimant over a significant claim. The Agency did not demonstrate that it had effective mechanisms to resolve this type of difference among its officers on individual cases.

6.3 The lack of clarity about the eligibility of SR&ED projects has resulted in unresolved claims dating back to 1985. The claimed tax credits amount to hundreds of millions of dollars. Since the creation of the SR&ED program, there have been disagreements between claimants and administrators and among administrators on what constitutes an eligible activity or project, how thoroughly a science officer should review a claim and how much documentation is necessary to support a claim. Clearer rules are urgently needed to deliver and administer the program effectively and efficiently.

6.4 The Agency has recognized the need to improve the administration of the program. To this end, after consulting stakeholders, the Minister of National Revenue released an action plan in November 1998. The Agency created a new Directorate and appointed a new head of the program.

6.5 According to our audit, the Agency needs to improve the assessment of the risk that taxpayers' claims are ineligible so that science and audit staff can focus on claims with the highest risk. The Agency manages the risk of ineligibility by conducting completeness checks, risk assessments, audits and science reviews.

6.6 An evaluation of the SR&ED program, done by the Department of Finance and the Agency, may have overstated the impact of the program in generating additional spending on SR&ED. The evaluation also indicated that the program generated only a net increase in Canada's real income of between $20 million and $55 million per year.

Background and other observations

6.7 The federal government encourages research and development in the private sector through tax incentives. Taxpayers receive tax credits once they have incurred expenses on their projects.

6.8 The Agency's information systems show that in 1997 about 11,000 corporations and individual taxpayers claimed over $10 billion in SR&ED expenses and $2 billion in tax credits. Large corporations claimed 85 percent of total expenses.

6.9 A staff of 144 science advisors and 268 financial auditors review claims in 37 tax services offices across the country. Advisors determine whether the work is eligible under the program and auditors examine whether the related costs qualify.

6.10 A key objective of the Agency's 1998 action plan was to reduce uncertainty about the eligibility of science projects. As a result, the Agency and industry proposed a definition of an SR&ED project that, in our view, modifies the level of eligible SR&ED work and expenses and that could result in additional costs in tax credits. If any significant changes were made to the definition of an SR&ED project, they would need to be reviewed by the Department of Finance, which is responsible for the program's policy objectives, costs and related legislation.

The responses of the Canada Customs and Revenue Agency and the Department of Finance are included in the chapter. Their responses describe the action they have taken and will continue to take to address our recommendations.

Introduction

6.11 Research and development is an important factor in improving the productivity of a country's economy and the standard of living of its citizens. Canada's federal government has encouraged research and development in the private sector for many years through tax incentives.

6.12 Incentives currently available for work in scientific research and experimental development (SR&ED) include:

- accelerated deductions for qualifying capital expenses of scientific research and experimental development incurred in Canada directly by, or on behalf of, a taxpayer's business;

- investment tax credits for qualifying current and capital expenses incurred in Canada. These can be claimed at rates of 20 percent or 35 percent and are refundable in some cases. Unused investment tax credits can be carried back three years or carried forward 10 years.

6.13 One of the key controls built into the design of these incentives is that the funds must be spent first before any tax credits are received. This also helps to guard against government funding of research and development that the marketplace would not support.

6.14 Several provinces have additional tax incentives for research and development. The federal and provincial tax deductions and credits can reduce the cost of SR&ED by about half.

6.15 The *Income Tax Act* defines eligible SR&ED as a "systematic investigation or search carried out in a field of science or technology by means of experiment or analysis". Work undertaken to advance scientific knowledge or to achieve technological advancement for the purpose of creating new (or improving existing) materials, devices, products or processes will qualify. Certain work, such as market research or sales promotion, is excluded from the definition. Certain work that directly supports SR&ED and is commensurate with the needs of SR&ED is also eligible.

6.16 The Canada Customs and Revenue Agency — in consultation with the Department of Finance, other federal organizations and industry representatives — developed three criteria to determine the activities that fall within the definition of SR&ED and qualify for the tax incentives. As set out in the Agency's administrative guidelines of the SR&ED program, these criteria are:

- scientific or technical advancement — the activity must generate information that advances our understanding of scientific relations or technologies;

- scientific or technological uncertainty — whether a given result or objective can be achieved and how to achieve it are not yet known or able to be determined on the basis of generally available scientific or technological knowledge or experience;

- scientific and technological content — the activity must incorporate a systematic investigation and be carried out by qualified personnel.

6.17 Exhibit 6.1 lists the objectives of the SR&ED program.

6.18 Administration of the SR&ED program. The Canada Customs and Revenue Agency administers the SR&ED program through 37 tax services offices. Science advisors review the technical aspects of the claims and financial auditors audit the related costs. Taxpayers' activities must qualify as scientific research and experimental development under the law before related costs can be eligible for a tax credit.

6.19 The Agency administers the program with the help of 144 scientists (11 science managers, 104 science advisors and 29 science officers) and

268 financial auditors. It also hires science experts on contract, when necessary, to supplement its in-house expertise. Agency auditors of large files audit SR&ED claims by large corporations. Staff at the Agency's head office develop administrative policy and provide advice to science advisors and auditors in the field.

6.20 Size of the SR&ED program and trends. The Agency's information systems show that in 1997 about 11,000 corporations and individual taxpayers claimed over $10 billion in SR&ED expenses and over $2 billion in tax credits. The number of claimants increased from 6,500 in 1992 to 12,000 in 1994 and has remained at around 11,000 since. Eight percent of the claims accounted for 85 percent of total expenses (see Exhibit 6.2).

6.21 SR&ED action plan. In November 1998, the Minister of National Revenue announced a series of initiatives, known as the SR&ED action plan, to improve the delivery of the program. These initiatives included creating a new Directorate and reorganizing the administration of the program, clarifying roles and responsibilities of the Agency and taxpayers, reviewing the program's rules of eligibility and finding new ways to resolve disputes during the processing of a claim.

Exhibit 6.1

Objectives of the SR&ED Program

Policy Objectives

- To encourage SR&ED in the private sector by offering broad assistance in financing.
- To assist small businesses to perform SR&ED.
- To provide incentives that are, as much as possible, of immediate benefit.
- To provide incentives that are as simple to understand and comply with and are applicable with as much certainty as possible.
- To promote SR&ED that conform to sound business practices.

Administrative Objective

- To deliver the SR&ED tax credit in a timely, consistent and predictable manner, while encouraging R&D performers to assess their own claims in compliance with tax laws, policies, and procedures.

Source: Department of Finance; Canada Customs and Revenue Agency

Focus of the audit

6.22 The purpose of the audit was to assess how well the government has administered the tax incentive program for scientific research and experimental development since our last audit in 1994. We followed up on the main findings and recommendations that we presented in our 1994 Report, Chapter 32, Income Tax Incentives for Research and Development. More details are provided in **About the Audit** at the end of the chapter.

Observations and Recommendations

Adjustments Requested by Taxpayers in 1994

The Agency was faced with an administrative nightmare

6.23 Before 1994, taxpayers could claim credits on SR&ED expenses anytime after the year in which they incurred them by requesting an adjustment to the income tax return they had filed for that year. The government decided that the program should encourage new research rather than provide an incentive to reopen tax returns already filed or to recalculate tax credits for expenses of prior years. The February 1994 Budget proposed to restrict expenses qualifying for tax credits to those that taxpayers identify no later than 18 months after the year in which they incurred them. This change became law in June 1994. The amended legislation contained a provision that gave taxpayers until 13 September 1994 to file claims relating to previous taxation years.

6.24 As a result of the amendment, the Agency received 16,000 taxpayer-

requested adjustments (TRAs) representing $2.8 billion in tax credits (see Exhibit 6.3). Some of these TRAs involved adding expenses to previous claims, but most of them were from 4,000 new claimants for several taxation years, as far back as 1985. The 16,000 TRAs created a huge backlog in the work of science advisors and financial auditors. These claims are referred to as the "bulge claims".

6.25 The Agency had to delay the processing of the bulge claims. It was unable to quickly increase the number of science advisors needed to process the claims. It also gave priority to current-year claims and strived to process all complete refundable claims within 120 days after receiving them.

6.26 The bulge claims were a challenge for the taxpayer and the tax administrator. The claims were often poorly prepared because of their age, missing documentation and the inexperience of the new claimants and those who assisted them. Files or personnel who could confirm that the activities had been experimental were often no longer available. Even after science consultants interviewed claimants and received more information on the claims, often they could not determine precisely what activities were eligible for a tax credit. Their decisions were often based on judgment and taxpayers' assertions. The review of related expenses also proved difficult because appropriate financial documentation was often missing. The Department of Finance and the Agency reached the same conclusion in their 1997 document entitled *The Federal System of Income Tax Incentives for SR&ED: Evaluation Report* (see Exhibit 6.4).

6.27 By 31 March 1999, the Agency had processed most of the bulge claims it had received in 1994. Science advisors and auditors disallowed about $1.3 billion in tax credits for the processed claims, which was close to half of the amount claimed.

The processing of the "bulge" claims raised questions of fairness

6.28 In our 1994 Report we had expressed concerns about the impact of the legislative change on the administration of the program. During this audit, we followed up these concerns by examining the retroactive and current claims of 100 claimants. We also interviewed tax lawyers and accountants, financial auditors and science reviewers and looked at representations that various taxpayer associations had made to the Agency.

6.29 In files that we reviewed and in our discussions with financial auditors and science reviewers, we noted that, at times, poor documentation left the tax administrator with a choice — either reject the claim if the taxpayer could not support it or accept the claim in whole or in part, based on the taxpayer's assertions. This trade-off between accuracy and

In 1994, as a result of a legislative change that limited the time to submit SR&ED claims, the Agency received 16,000 taxpayer-requested adjustments representing $2.8 billion in tax credits.

The trade-off between rejecting unsubstantiated claims and accepting claims based on taxpayers' assertions created inconsistencies in how files were handled.

Exhibit 6.2

Size of SR&ED Claims, 1997

SR&ED Expenses (in dollars)	Number of Claims	Percentage	Amount ($ millions)	Percentage
0 to 100,000	5,499	52	233	2
100,000 to 1,000,000	4,317	40	1,325	13
More than 1,000,000	859	8	8,681	85
Total	10,675	100	10,239	100

Note: Eight percent of claims account for 85 percent of total SR&ED expenses.

Source: Canada Customs and Revenue Agency

efficiency created inconsistencies in the way files were handled.

6.30 In some cases, the tax services office rejected claims if projects or expenses were poorly documented. In others, financial auditors and science reviewers helped taxpayers to prepare eligible claims.

6.31 Sometimes the first science review found activities ineligible. Some claimants asked for and received a second review, which concluded on occasion that they were eligible. In other cases, the Agency did not offer a second review. By granting a request for a second science review or even a third one, the Agency gave some claimants an opportunity to, in effect, benefit from an additional redress mechanism during the audit of the claim. The Agency did not publicize that it was willing to undertake a second science review. Consequently, many taxpayers might have been deprived of the opportunity to ask for one.

6.32 We found a case where three science opinions had rejected a claim. The unsatisfied claimant asked for a fourth opinion that, this time, resulted in the approval of the claim. The Agency allowed the tax credit.

6.33 The Agency's databases could not provide us with a listing of claims where the claimant had asked for and received a second science review. However, the Agency informed us that there had been a limited number (20) of such cases. We were also unable to determine whether some claimants had asked for but had not received a second science review.

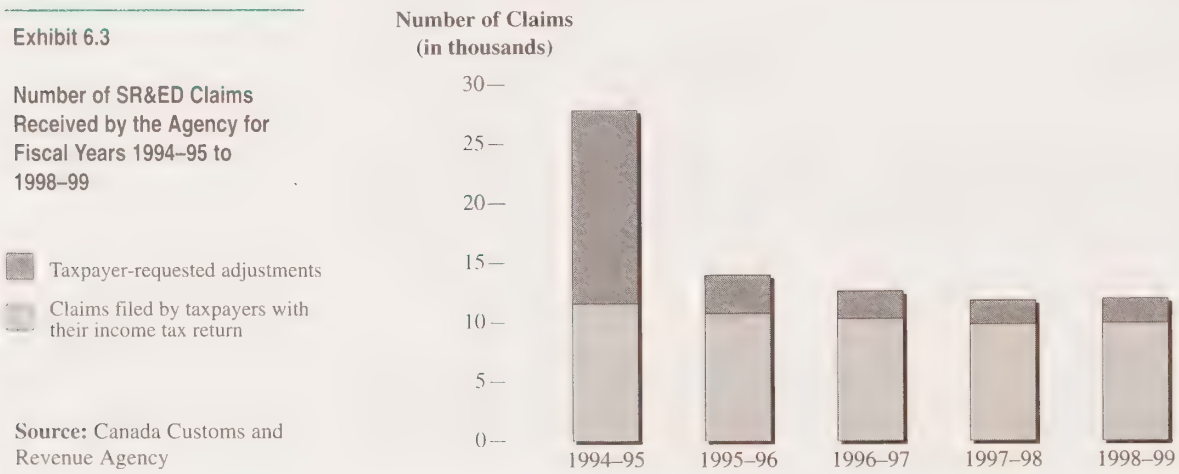
6.34 In January 2000, the Agency released guidelines on how to provide second opinions to claimants who dispute the science review. It is also considering an alternative mechanism to resolve disputes, which would supplement the current appeal process.

6.35 We noted other inconsistent approaches to resolving disputes over the eligibility of science activities. In one case, two consultants reviewed unrelated science areas of a claim. The claimant disagreed with one consultant whose conclusions would have disallowed most of the area of the claim he had reviewed. Rather than obtain a second science review, the Agency resolved the claim by applying the outcome of the other, more favourable review to both areas of the claim. The claimant received about $500,000 more than the science report had indicated.

6.36 In another case, a science advisor found various projects of a claimant ineligible. The audit report noted that only a portion of the allowed credit was based on reviewed work. According to the file,

Exhibit 6.3

Number of SR&ED Claims Received by the Agency for Fiscal Years 1994–95 to 1998–99



Source: Canada Customs and Revenue Agency

the Agency allowed an additional tens of millions of dollars in SR&ED expenses to settle the claim. As a result, the claimant received millions more in tax credits.

6.37 In our view, there were significant inconsistencies in the handling of these claims, which compromised the fairness of the review process.

There were serious internal differences of opinion on a significant claim

6.38 Serious differences of opinion arose within the Agency on how to resolve a large claim.

6.39 At the time this claim was filed, the taxpayer had poorly documented the science work and expenses. The staff at a tax services office spent over 10,000 hours on the audit and $300,000 on a science report. It was the auditors' professional opinion that they had to deny most of the claim because of the lack of substantiation by the taxpayer. The Agency's head office spent $300,000 more on a second science report. The Agency informed us that, in keeping with its functional authority, the head office took over responsibility for settling the file. The head office then approved tens of millions of dollars more in tax credits than the audit from the tax services office and the region had supported.

6.40 This file raises a number of serious concerns about the process that was followed to resolve the dispute. The head office made first and second offers and then a final one to settle the claim; each offer significantly exceeded the amount that auditors had supported. The file did not document the reasons for the first and second offers, which the head office had made before the completion of the science report and the financial audit. As for the final offer, we have concerns about how it was reached.

The processing of a significant SR&ED claim raised serious concerns.

6.41 Included in the final offer were tens of millions of dollars in tax credits for costs that the taxpayer had paid to another taxpayer and then claimed. The other taxpayer invoiced the taxpayer for the costs of SR&ED work and other work. The other taxpayer was not required to indicate what was eligible SR&ED work.

6.42 The taxpayer claimed the costs of what it thought was the other taxpayer's SR&ED work as well as an additional amount. This claimed amount was substantially higher than the amount the Agency had allowed in the other

Exhibit 6.4

Difficulties in Reviewing Taxpayer-Requested Adjustments

> For financial audit, the techniques, tools and practices of cost verification are well established and accepted. As far as the verification process is concerned in the SR&ED tax incentives, there are no doubts among the auditors about the necessity of some level of audit for a large majority of claims. In the normal process, once science advisers confirm project eligibility, it is a given that there are qualifying costs for the auditor to verify. Generally speaking, with proper case documentation and project tracking, the financial audit process can be seen as a fairly prosaic process. However, the practical application of audit technique has become particularly difficult over the past couple of years. Auditors report that many clients now apparently deliberately increase the burden on Revenue Canada of identifying truly qualifying expenditures, by the simple expedient of throwing into the claim – for the auditor to find and cut – everything that looks like it might be remotely related to the qualifying work.
>
> Not all clients are overclaimers; consequently many well-established clients, often with relatively small claims, are dealt with very quickly with only minimal verification. But the number of claims that can be so handled dropped from nearly 30 per cent in 1994–95 to about 20 per cent in 1995–96. Auditors have reported that the ethical rules of composing the claim are being widely ignored and that the envelope is constantly being pushed, often to a ludicrous extent. In one example, a claim was originally submitted at $250,000, and was inflated by an accountant to $3,000,000 and then further inflated by a tax consultant to $5,000,000. Subsequent review and audit reduced it to its original figure.

Excerpt from: Department of Finance and Canada Customs and Revenue Agency, *The Federal System of Income Tax Incentives for SR&ED: Evaluation Report*, 1997

taxpayer's SR&ED claim for the same work. (At that time, the legislation permitted both taxpayers to claim for the same SR&ED credits.)

6.43 Auditors at the tax services office determined, and the head office agreed, that a significant portion of the costs claimed by the taxpayer for the work of the other taxpayer did not qualify for a tax credit. Based on information in the Agency's files, including the audit of the other taxpayer's claim, the auditors at the tax services office thought that it would be reasonable to allow the taxpayer a credit of tens of millions of dollars for the other taxpayer's work done in Canada. The head office finally allowed twice that amount.

6.44 According to the files at the tax services office, the head office told the auditors that, owing to policy, they could not examine the other taxpayer's SR&ED claim because the taxpayer and the other taxpayer were dealing at arm's length. The auditors had to accept the amount determined by the taxpayer for work done in Canada.

6.45 In our view, since the taxpayer had estimated the SR&ED work of the other taxpayer, the Agency had an obligation to examine and verify how this was done. It was inappropriate for the head office to disregard the results of its previous audit and assessments of the other taxpayer's SR&ED claim as well as other documentation on file in determining the credit allowed to the taxpayer.

6.46 The head office also accepted, without adequate verification, other expenses that auditors had rejected for lack of substantiation. This resulted in an additional tax credit of tens of millions of dollars.

6.47 The head office has the authority and the expertise to review decisions of tax services offices, regional offices and consultants, and to override incorrect ones. However, we believe that the resolution of any major internal dispute over the application of administrative policies needs to reconcile the opposing positions.

6.48 In this case, we would have expected the Agency to analyze in depth the history of the disputed claim. The lessons it would have drawn from this experience could have been used to better plan, manage and monitor the administration of the SR&ED program. We have learned that the Agency began an internal review following our audit.

6.49 The Canada Customs and Revenue Agency should revise its procedures to ensure that SR&ED claims are processed in a fair and consistent manner. The Agency should establish a process to reconcile internal differences of opinion on the application of administrative and audit policies related to verifying SR&ED claims.

Agency's response: *The Canada Customs and Revenue Agency (CCRA) strives to ensure that all of its services, including the SR&ED program, are administered in a fair and consistent manner. This objective is articulated in our Fairness Pledge, published in 1998, which includes a specific commitment to apply laws consistently and equitably. Furthermore, the CCRA's objective for the SR&ED program, as set out in Exhibit 6.1 of this chapter, reinforces our commitment to consistency and fairness.*

We acknowledge that there is room for improvement and this is reflected in the SR&ED Action Plan announced in 1998, which is captured in Exhibit 6.5. Of particular note is the action relating to a code of rights, obligations and responsibilities, the action to establish committees to develop standards and guidelines and the action to clarify documentation requirements. All of these actions are intended to bring about greater fairness and consistency.

The CCRA is making significant progress in implementing the SR&ED Action Plan

and will take additional measures as necessary to reinforce fairness and consistency in our actions and to ensure we are able to effectively demonstrate to the Auditor General and others our record in being fair and consistent.

The CCRA's accountability framework, internal communications practices and decision-making fora provide effective means to address differences of opinion. We do, however, acknowledge that a significant difference of opinion did occur within the Agency respecting one file. In this one instance, existing mechanisms were not fully used to resolve the difference of opinion. The CCRA has already taken action to address this specific occurrence and will reinforce within the Agency the importance of using available mechanisms to resolve differences of opinion.

Challenges of the SR&ED Program

6.50 Although the pressures associated with reviewing and resolving the bulge claims have subsided, the program continues to face major challenges.

Clearer eligibility rules are needed to improve the administration of the program

6.51 Since the creation of the program, there have been disagreements between claimants and administrators and among administrators on what is an eligible activity or project, how thorough the science review should be, and how much documentation is necessary to support the claim. In our view, uncertainty about what makes a claim eligible can adversely affect relations with claimants. Resolving disputes over eligibility drains resources, jeopardizes the program's incentive objective and puts at risk large amounts of tax revenue.

6.52 Observers of the program have suggested that better training of science reviewers would reduce uncertainty. We believe that this would only lessen inconsistencies and that clearer eligibility rules are needed to reduce uncertainty.

6.53 In November 1998, the Agency released an action plan to improve the delivery of the SR&ED program (see Exhibit 6.5). A steering committee, with the Agency as a member, is overseeing its implementation. Several actions of the plan were aimed at reducing the number of disputes between claimants and the Agency. Other actions were aimed at reducing uncertainty by developing new interpretation guidelines and standards and clearer documentation requirements. We agree that clearer rules on eligibility and documentation are needed to deliver the program effectively and efficiently. Clear rules are a key concern in a tax system that relies on self-assessment and voluntary compliance.

6.54 The Agency had tried to clarify the administrative rules on the eligibility of science work by revising the program's information circular (IC86–4R) in 1997. It stopped this exercise to study further the many suggestions and complaints of stakeholders.

6.55 Under the action plan, several industry subcommittees looked at SR&ED eligibility in their respective sectors. A draft paper entitled "SR&ED Project Definition — Principles" reflected their views. In January 2000, it was presented to industry and representatives of industry associations as a collective opinion of industry and the Agency. The paper indicated that these principles would help to apply the definition of an SR&ED project as set out in the information circular.

6.56 This definition deviates from the current practice of defining, documenting and reviewing claims. In our view, the paper's definition modifies the level of eligible SR&ED work and expenses and could result in additional costs in tax credits.

Since the creation of the SR&ED program, there have been disagreements between claimants and administrators and among administrators on what is an eligible activity or project, how thorough the science review should be, and how much documentation is necessary to support the claim.

6.57 The Department of Finance is responsible for the policy objectives and legislation of the program. Therefore, if any significant changes were made to the definition of an SR&ED project, the Department would need to determine their intent and potential cost.

6.58 The Canada Customs and Revenue Agency should clarify the administrative rules on eligible work under the SR&ED program. The Department of Finance should examine the legislative rules to ensure that they adequately reflect government tax policy.

Agency's response: *As indicated in the preceding paragraphs, the CCRA has already launched a process to clarify the administrative rules governing the work eligible under the SR&ED program. At the January 2000 Minister's Conference on SR&ED, the need for clearer eligibility rules was identified as a priority for the future. The CCRA believes that the meaningful consultations under way with industry representatives will result in administrative rules that are clearer and more relevant to specific sectors, which will facilitate voluntary compliance.*

The CCRA is working closely with the Department of Finance in this undertaking to ensure that new administrative rules for eligible work are consistent with government tax policy. This will also expedite the development of any

Exhibit 6.5

SR&ED Action Plan

This document is the Canada Customs and Revenue Agency's action plan to improve its Scientific Research and Experimental Development (SR&ED) Program. The 13 actions listed here are based on the recommendations of industry members who participated in the Building Partnerships conference on SR&ED held in Vancouver on June 26 and 27, 1998.

- Make the SR&ED Program more independent with a focus on science and incentives. Headquarters and field offices will be directly accountable to the head of the program.
- Establish a steering committee to oversee implementation of the action plan.
- Establish sector-specific committees. These committees will develop issue sheets, standards, and interpretation guidelines for their sectors.
- Develop a communications package covering the SR&ED audit process and taxpayer rights.
- Develop a code of rights, obligations, and responsibilities for stakeholders.
- Focus on preventing disputes through better communication. This involves Agency personnel improving their understanding of industry practices, and industry improving its understanding of the SR&ED Program requirements and the audit process.
- Establish a standard mechanism for dealing with informal disputes. No matter what steps are taken to minimize disputes, some will inevitably arise. Industry recommended that when a dispute arises, a second opinion should be required.
- Clear outstanding disputes about past claims. Industry sees the number of unresolved claims as negatively affecting new claims and an impediment to the orderly implementation of new initiatives.
- Industry recommended improved timeliness and openness of formal appeals. Open communication between the appeals body and the taxpayer should be a standard part of the appeal process.
- Joint industry-Agency training is necessary. Industry associations should play a role in developing training material for science auditors.
- Improve the auditing process.
- Clarify documentation requirements for the SR&ED Program.
- Explore options to focus on process audit rather than audit of individual projects to reduce the burden of frequent science audits. Consider developing procedures to conduct a one-time audit of a company's process for compiling SR&ED claims, with fewer audits of separate projects.

Excerpt from: Canada Customs and Revenue Agency, *SR&ED Action Plan*, 1998

legislative amendments that may be required to support the ongoing effectiveness and integrity of the SR&ED program.

Department of Finance's response: *The Department of Finance fully supports this recommendation. The Department and the CCRA work closely together on the SR&ED tax incentive program. For example, a number of formal and informal mechanisms are in place to ensure that the SR&ED tax incentives are monitored and managed appropriately. These mechanisms include liaisons between officials responsible for policy or administration of the SR&ED tax incentive program, the SR&ED Interdepartmental Working Group and the CCRA Advisory Committee on SR&ED.*

As indicated in the 2000 budget, the federal government will consult with industry representatives to ensure that the guidelines on software development, in particular internal use software, both reflect government policy and provide clarity and certainty of application for compliance purposes as well as administration. Once consultations are completed, the government will determine whether amendments to the Income Tax Act *are required.*

Unresolved disputes over eligibility of science work have reached hundreds of millions of dollars in tax credits

6.59 On 31 March 1999, the Agency had an inventory of 7,680 outstanding claims dating back to 1985 that involved SR&ED tax credits of $5 billion. Hundreds of millions of dollars were included in claims designated as "unworkable". The unworkable claims from the financial and telecommunication sectors were outstanding because of unresolved disputes between claimants and the Agency. We examined these claims.

6.60 **Financial institutions are challenging the decision to disallow hundreds of millions of dollars in tax credits.** Financial institutions filed SR&ED claims in 1990 dating back to 1985. By 31 March 1996, some institutions had claimed SR&ED expenses of billions of dollars for information technology and software development. This represented tax credits of hundreds of millions of dollars.

6.61 In 1992, science advisors reviewed these claims and reached different conclusions about their eligibility. Some in one tax services office (TSO) approved the claims of a financial institution, whereas some in another TSO rejected similar claims of a different financial institution. The Agency formed a panel of experts to review claims by financial institutions for software development expenses and to ensure that all TSOs would give them consistent treatment. In 1996 the panel concluded that only 10 percent of the claimed expenses were eligible.

Disputes over eligibility of science work in the financial and telecommunication sectors have been unresolved for more than five years.

6.62 In the 1995 Budget, the Minister of Finance noted that the government was reviewing the income tax rules and administrative guidelines on the eligibility of SR&ED in information technology. He announced that during the review, no bank or financial institution could claim a tax credit for its activities in information technology. On 12 December 1995, the Minister tabled a Notice of Ways and Means Motion to ensure this.

6.63 Following the Agency's assessment that much of the work claimed by financial institutions would not qualify for SR&ED incentives, the Department of Finance concluded that there was no need to change the law as had been proposed in the Notice of Ways and Means Motion. The Department indicated that revising guidelines and enhancing audit coverage would resolve any difficulties.

6.64 In February 1997, the Agency revised its administrative guidelines on the eligibility of software development.

6.65 In January 2000, however, some financial institutions were still challenging the Agency on their information technology claims for billions of dollars in SR&ED expenses, which represented a possible tax credit of hundreds of millions of dollars. The Agency had rejected amounts claimed by many other institutions that had not challenged its assessment.

6.66 Telecommunication companies are challenging the decision to disallow hundreds of millions of dollars in tax credits. Telecommunication companies have submitted SR&ED claims for the development of management information systems dating back to 1991. The Agency has estimated that outstanding claims amount to billions of dollars in expenses, which represents hundreds of millions of dollars in tax revenue that is at risk.

6.67 The Agency carried out science reviews of the 1990–91 claims of two telecommunication companies. These reviews reached inconsistent conclusions about the eligibility of the science work. In 1997, the Agency completed a national review of the 1993–94 claims of some telecommunication companies and rejected a large percentage of them. The claimants have challenged the outcome of this review.

6.68 There have been unsuccessful attempts to resolve these claims. In 1997 some companies drafted an agreement on filing and auditing SR&ED claims. The Agency did not accept this agreement and prepared an explanation of its position on some general issues concerning the eligibility of claims by telecommunication companies. The companies rejected this explanation. Since 1994 they have continued to submit annual SR&ED claims for similar types of activities. At the time of our audit, an independent third party had begun a second national review of these claims.

6.69 The Canada Customs and Revenue Agency, with the departments of Justice and Finance, should develop and implement a strategy to resolve outstanding claims by the financial and telecommunication sectors.

Agency's response: *The CCRA shares the Auditor General's concerns about the inventory of outstanding claims in the sectors identified. Given the amounts in question, the CCRA and the departments of Justice and Finance are proceeding in a prudent manner by undertaking additional reviews and exploring possible options for resolution. In addition, a number of formal challenges have been launched by claimants in these sectors and the normal resolution processes are being followed by the CCRA and the Department of Justice. We are seized with the importance of resolving these outstanding claims and are committed to a fair and correct resolution as early as practical. However, we recognize that the outstanding claims must meet the three well-established criteria — scientific or technological uncertainty, advancement and content — in order to qualify for the SR&ED tax incentives.*

It should be noted that elements of the Action Plan focus on preventing disputes through better and earlier communication, establishing a standard mechanism for dealing with disputes and resolving outstanding disputes about past claims.

Department of Finance's response: *The Department of Finance will be assisting the CCRA in order to achieve this result. As indicated in the 2000 budget, the government is committed to rigorously applying the three well-established criteria to address the backlog of SR&ED claims related to information technology. These criteria are scientific or technological uncertainty, advancement and content.*

Management of Compliance Risk

6.70 In 1997, eight percent of claims represented 85 percent of all SR&ED expenses claimed that year (see paragraph 6.20). The rest of the claims were for small amounts. This and the fact that the Agency strives to process all refundable tax credit claims within 120 days after receiving a completed claim present challenges to managing compliance risk (the risk that claims may not comply with the eligibility criteria of the program).

6.71 There are no standard criteria for assessing risk. We found that the head office had not developed standard criteria to assess risk and to identify high-risk claims for review and audit. As a result, tax services offices developed their own criteria. Some offices relied mainly on financial criteria; others used a mix of financial and science criteria.

6.72 Our review of program data showed how the Agency had managed risk in recent claims. By May 1999, the Agency had received 29,000 claims for taxation years from 1996 to 1999, which involved $5 billion in tax credits. It accepted 10,000 claims ($460 million in credits) based on a screening without further verification and it audited 13,000 claims ($1.3 billion in credits). The Agency had yet to process the remaining 6,000 claims ($3.2 billion in credits) in its inventory.

6.73 According to program data, 29 percent of completed audits, or 100,000 audit hours, did not lead to claims adjustments. This suggests that the risk assessment criteria may not be successful in identifying risky files for review and audit.

6.74 Several tax services offices indicated to us that during peak periods, they accepted more refundable claims as filed if they could not process them within 120 days after receiving them.

6.75 Most claims from large corporations are audited several years after they are filed. Agency auditors of large files audit SR&ED claims by large corporations. Science advisors review these claims when auditors start their work.

6.76 We looked at the claims of 25 of the 100 largest claimants and learned that most science reviews and audits were not current. They covered only taxation years between 1988 and 1993.

6.77 Our audit found that science advisors had reviewed the claims differently. We found that some had reviewed a large corporation's claim year after year, even when past reviews had identified no problems with eligibility. Others reviewed an unrepresentative sample of projects from the claim; unreviewed projects were accepted as filed. In some tax services offices, advisors and auditors were proposing to adopt project-sampling methods that would allow them to apply the results of their review and audit of one claim to other claims over several years.

Most science reviews and audits of claims by large corporations were not current.

6.78 The Canada Customs and Revenue Agency should adopt standard criteria to assess the compliance risk of claims. The Agency should also ensure that it processes large claims in a timely and consistent manner.

Agency's response: *The CCRA, in all its programs, is committed to continuously improving its management of risk. With regard to the SR&ED program, the Auditor General recognized in his 1994 Report that all claims are subject to a desk review by a science advisor and an auditor when they are filed. This review is designed to determine whether the activities being claimed meet basic eligibility requirements and whether the costs are reasonable. Since then, we have included standard risk criteria in the annual workplans and have taken other measures, such as the provision of detailed compliance rates by strata to the field, inclusion of risk assessment practices in*

training materials and other guidelines, and sharing and discussion of best practices.

The general framework for assessing risk is included in the recently released Stakeholders Report for the program, Action Plan — Consultation to Implementation. The cornerstone of risk assessment in the SR&ED program is "Knowing Your Client". With the implementation of the client-centered approaches called for in the Action Plan, our ability to assess risk will be further enhanced.

The CCRA is committed to processing large claims in a timely, consistent manner. The objective is to process all large claims within 365 days of receiving a complete claim. We recognize that the timely delivery of these claims represents a significant challenge. There are several measures in the Action Plan, including "process audit" and "Account Executive Service", that address this issue.

In addition, the resources for processing large claims were recently consolidated in the SR&ED program. This will allow the CCRA to better focus its resources on the science, technology and incentive aspects of the program and improve timeliness, while maintaining the program's fiscal integrity. Furthermore, these measures will establish greater uniformity and consistency in the way the program is delivered across the country. For instance, one of the key functions of the National Technology Sector Specialist initiative, which was recently implemented, is to ensure consistency in program delivery.

There is uncertainty about the extent of additional spending generated by federal tax incentives.

Impacts of the SR&ED Program

A joint evaluation assessed the impacts of the program

6.79 In 1997 the Department of Finance and the Agency completed a joint evaluation of the program. Here are two main findings:

- Federal SR&ED tax incentives encouraged participants to incur more expenses in research and development than they would have without the program. Participants in the program had spent 38 cents over and above every dollar in federal incentives that they received.

- The program generated a net increase in Canada's real income of between $20 million and $55 million per year.

6.80 In a survey of claimants, the evaluation determined the additional spending generated by the program. The Department indicated that there were advantages and disadvantages to using this method to obtain information. The main advantage of a survey is that it explains a subject in more detail. Among its disadvantages, respondents have a natural tendency to overestimate the impacts of policies that are beneficial to them. Claimants were asked if investments would have been different without federal SR&ED tax incentives. It is unclear whether taxpayers attributed all additional spending on SR&ED to federal tax incentives or to both federal and provincial incentives.

6.81 Given the uncertainty about the extent of additional spending generated by federal tax incentives, sensitivity analyses would have been appropriate to estimate the ratio of additional spending on SR&ED to tax revenue forgone. For example, assuming that survey respondents attributed all additional spending to federal and provincial incentives, the tax revenue forgone would have been higher and the cost-spending ratio would have been lower than 1.38. Provincial tax incentives represent between 20 percent and 30 percent of total tax incentives.

6.82 Additional spending on SR&ED directly reflects the impact of the program on the economy. An overstatement of additional spending would overstate the impact. The evaluation revealed that the

economic benefits of the program exceeded the costs by a relatively small amount, between $20 million and $55 million. In other words, the SR&ED program was marginally cost-effective.

6.83 To estimate the impact of the program on the economy, the evaluation used conservative estimates of benefits to persons or businesses other than those paying for research and development (spillover benefits).

6.84 In our November 1999 Report, Chapter 19, Investing in Innovation, we commented that spending on research and development is not the only factor that determines the rate of growth of productivity in the economy; and it may not be the most important one. We called on Industry Canada to thoroughly examine the government's main direct funding programs for research and development. In our view, it is important for the government to look at how federal tax incentives promote growth and innovation.

6.85 In future evaluations of the SR&ED program, the Department of Finance needs to consider the following questions.

- Why, among the G–7 countries, does Canada have the second lowest ratio of total spending on research and development to gross domestic product? This is despite the fact that Canada has the most generous tax incentive for research and development.

- How much should government support research and development? Should the federal government invest some of its SR&ED funds in other activities that promote innovation?

- Why is the number of claimants not growing?

6.86 The Department of Finance, with Industry Canada, should look at the respective roles of tax incentives and program incentives within the overall federal strategy of providing assistance for research and development.

Department of Finance's response: *SR&ED investment tax credits are the most important element of the federal strategy of providing assistance for research and development (R&D). Tax credits are provided in recognition of the fact that the benefits of SR&ED accrue not only to the SR&ED performer but also to other participants in the economy. These credits are designed to encourage firms to perform SR&ED in Canada given the key role of SR&ED in the emerging new economy.*

The Department will continue to review the program to ensure its effectiveness in the context of the overall federal strategy of providing assistance for R&D, including any expenditure programs administered by other departments, such as Industry Canada. The Department of Finance completed an evaluation of the SR&ED tax incentive program, which was published in 1997.

Ongoing review is important to ensure that the SR&ED tax incentive program is effective in meeting its policy objectives. For example, as indicated in the 2000 budget, the federal government will consult with industry representatives to ensure that the guidelines on software development, in particular internal use software, both reflect government policy and provide clarity and certainty of application for compliance purposes as well as administration. The federal government must ensure that tax credits are only provided to those activities to which the SR&ED program was intended to apply.

Conclusion

6.87 Our audit revealed a number of significant problems in the administration of the program.

6.88 The handling of bulge claims compromised the fairness of the review

process. Serious professional differences of opinion on how to handle a significant claim were not resolved. The Agency requires a mechanism to reconcile internal differences of opinion.

6.89 There is uncertainty about what constitutes an eligible activity or project, how thoroughly a science advisor should review a claim and how much documentation is necessary to support a claim. This uncertainty needs to be eliminated. In a tax incentive program such as the one for SR&ED, the legislative and administrative rules must define as completely as possible who and what qualify for the tax credit. This helps to ensure that only eligible SR&ED work is claimed and allowed. Clearer rules are urgently needed to deliver the SR&ED program effectively and efficiently.

6.90 Amounts in disputes over the eligibility of science work in the financial and telecommunications sectors have reached hundreds of millions of dollars in tax credits. The Agency, with the departments of Justice and Finance, needs to develop and implement a strategy to resolve these disputed claims.

6.91 The Agency and industry proposed a definition of an SR&ED project that would modify the level of eligible SR&ED work and expenses and could result in additional costs in tax credits. The Department of Finance is responsible for the program's policy objectives, costs and related legislation. Therefore, if any significant changes were made to the definition of an eligible SR&ED project, the Department would need to determine their intent and potential cost.

6.92 There is a need to strengthen the methods of assessing the risk that claims may not comply with the eligibility criteria of the program.

6.93 An evaluation by the Department of Finance and the Agency revealed that the program generated a net increase in Canada's real income of between $20 million and $55 million per year. In our November 1999 Report, Chapter 19, Investing in Innovation, we commented that spending on research and development is not the only factor that determines the rate of growth of productivity in the economy; and it may not be the most important one.



About the Audit

Objective

The objective of the audit was to assess how well the government has administered the tax incentive program for scientific research and experimental development.

Scope and Approach

In our examination, we determined:

- how the Agency handled 16,000 retroactive claims that it had received in 1994;
- whether there were problems that impeded the administration of the program;
- how the Agency managed the risk that claims for tax credits may not have been eligible;
- what is known about the program's impacts.

We conducted our audit work in the Canada Customs and Revenue Agency, its head office and seven of its tax services offices and in the Department of Finance.

We examined various Agency documents and representations that various taxpayers associations made to the Agency. We interviewed science advisors, financial auditors, and private-sector tax advisors.

We reviewed the evaluation of the SR&ED program that the Department and the Agency carried out in 1997.

We analysed SR&ED program data.

We examined the files of 100 (25 large and 75 small) claimants, many of whom had several multiyear claims. The total value of these claims exceeded $3 billion in tax credits. Our examination covered bulge claims and recent claims. We selected these claims based on our judgment. Therefore, the results cannot be generalized statistically to the broader population of similar claims. We focussed only on the actions of government officials as they administered these claims. We did not audit the claimants and we made no comment on their actions.

Criteria

To effectively administer the program, the Agency was expected to:

- clearly articulate the objectives of the program and balance them with the requirement that it prudently disburse program funds;
- have clear rules and guidelines on eligibility to guide claimants and their reviewers;
- support and document conclusions of reviewers;
- resolve claims efficiently and effectively and ensure that taxpayers receive consistent treatment; and
- have appropriate procedures in place to manage the risk that claims may not be eligible.

Audit Team

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Report of the Auditor General of Canada to the House of Commons – 2000

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Report of the Auditor General of Canada to the House of Commons

Chapter 7
Royal Canadian Mounted Police –
Services for Canada's Law Enforcement Community

April 2000

Report of the

Auditor General of Canada

to the House of Commons

Chapter 7

Royal Canadian Mounted Police –
Services for Canada's Law Enforcement Community

April 2000

This April 2000 Report comprises 9 chapters as well as a Foreword and Main Points. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

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Chapter 7

Royal Canadian Mounted Police

Services for Canada's Law Enforcement Community

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.

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Royal Canadian Mounted Police

Services for Canada's Law Enforcement Community

Main Points

7.1 The levels of service that the RCMP provides to the Canadian law enforcement community do not meet the needs of its clients. For example, the Canadian Police Information Centre (CPIC), a backbone system that provides information to police officers, courts, prisons and parole officers, was unavailable regionally or nationally 11 percent of the time last year. DNA analysis takes too long and is limited to only the most important cases. Thus, its full potential for public safety is not being realized. Backlogs of up to two months exist for inputting criminal history records and fingerprints into data banks. As a consequence, the criminal records and fingerprint data available to the police and others are not current. In addition, criminal record checks required by employers or volunteer organizations take too long.

7.2 It is imperative that senior management at the RCMP take action to eliminate backlogs in many of the services and improve efficiency. In particular, the RCMP needs to rationalize the number of laboratories in order to improve their level of service. Significant improvement is also required in performance measurement and the reporting of results. It is important that users, senior RCMP management and Parliament know these results.

7.3 The arrangement between the federal government and the provinces set in 1966 for these services needs to be rethought. It is time for a clear agreement among all the players in the law enforcement community — in the federal, provincial and municipal governments — on level of service, funding arrangements, user input, management and accountability. A new agreement will require the collaboration of all parties.

Background and other observations

7.4 The RCMP provides a range of services that are essential to the Canadian law enforcement community: police, courts, prisons and parole boards. These services include fingerprint identification, criminal history records, forensic laboratories, criminal intelligence and on-line access to data banks such as vehicle registration, drivers' licences, wanted persons and stolen property. In 1998–99, the RCMP spent approximately $122 million on these services.

7.5 There are a number of areas where the RCMP deserves credit for the way it has operated these services: it has kept the old CPIC information system operational while awaiting a new system; it has implemented new forensic techniques such as DNA analysis; it is developing a data bank for DNA; and it has made major upgrades to fingerprint identification and criminal history records systems.

7.6 Our last audit of services to the law enforcement community was in 1990. We made a number of recommendations to improve operational economy and efficiency. Attention has only recently been paid to many of our recommendations and others have not been addressed. These national services have also been reviewed several times over the past decade by the Solicitor General Canada, the Treasury Board Secretariat and the RCMP itself.

The RCMP agrees with the findings and indicates that it will be taking action.

Introduction

7.7 The Royal Canadian Mounted Police provides a set of national services that assist members of Canada's law enforcement community in their work and enhance public safety. For example:

- Police officers need to know if the car they stop is stolen, or if the driver is dangerous, unstable or wanted for any offences.
- The courts use the results of a DNA analysis or a fingerprint check to convict.
- Parole boards need to have accurate information on an inmate's criminal history record to decide whether to release and on what conditions.
- Employers need to know whether a new employee has a criminal record.
- Customs and Immigration require relevant information on visitors to Canada.

7.8 The RCMP national services consist of a number of components:

- **Forensic laboratories** analyze crime scene evidence to help in identifying suspects.
- **Criminal history records** are maintained for 2.8 million criminals.
- **Fingerprint identification** is used in over a quarter of a million fingerprint searches each year.
- **The Canadian Firearms Registry** registers guns and gun owners.
- **The Canadian Police Information Centre (CPIC)** links field staff to a range of data banks via telephone or computer. Data banks include drivers' licences and vehicle plates, stolen vehicles and boats, warrants for arrest, missing persons and property, criminal history records, fingerprints, firearms registration, missing children, and other subjects.
- **The Canadian Police College** provides advanced and specialized training to police officers.
- **Criminal Intelligence Service Canada** gathers and shares information from different agencies on organized crime.

7.9 As shown in Exhibit 7.1, these national services represent an expenditure of over $122 million annually (about six percent of the RCMP's spending) and account for 1,169 staff (about six percent of RCMP personnel). The different services have one business plan but are primarily managed individually.

Focus of the audit

7.10 Our audit focussed on the key services that the RCMP provides to the Canadian law enforcement community. The Canadian Firearms Registry was examined only in relation to CPIC. We last reported on these services in our 1990 Report, Chapter 27.

7.11 The objectives of our audit were to determine:

- whether the RCMP has improved its essential services to the law enforcement community and whether it has made progress in responding to areas of concern identified in previous audits and studies; and
- the extent to which the RCMP has the capacity, structures and procedures to respond effectively and efficiently to the needs of clients in the next decade.

7.12 Further details on the audit can be found at the end of the chapter in **About the Audit**.

RCMP national services are essential to public safety.

Observations and Recommendations

Forensic Laboratories

7.13 The six RCMP forensic laboratories are located in Halifax,

Ottawa, Winnipeg, Regina, Edmonton and Vancouver. These laboratories provide scientific examination of criminal evidence to Canadian police agencies, Crown counsels and other federal, provincial and municipal agencies. While they are paid for by the federal government, the main beneficiaries are the provinces. Over 85 percent of the casework involves responding to requests from provincial and municipal agencies.

7.14 The RCMP laboratories do not serve the entire law enforcement community. The provinces of Quebec and Ontario operate their own forensic laboratories, and the Vancouver City Police operate a forensic firearms laboratory. Health Canada analyzes illicit drugs for law enforcement agencies across Canada.

7.15 The six laboratories provide a full range of forensic analysis services in various disciplines, including biology (for example, DNA analysis), document analysis, firearms, alcohol, chemistry and toxicology. Each discipline is supported by a Chief Scientist.

7.16 An executive group in Ottawa provides overall management of the forensic laboratory. The central laboratory in Ottawa performs several functions:

- research and development and quality assurance;
- full laboratory services to police forces in the Hull/Ottawa area in exchange for local policing services;
- DNA processing (one of three centres);

Exhibit 7.1

Expenditures 1998–99

	Actual $ millions	FTEs[1]
Forensic laboratories	41	316
Identification services • Criminal history records • Fingerprint identification • Canadian Police Information Centre	27	341
Canadian Firearms Registry [2]	16	323
Canadian Police College	8	89
Criminal Intelligence Service Canada	1	15 [5]
Informatics[3]	20	85
Other[4]	9	
Total	122	1,169

Notes:

[1] FTEs refer to full-time-equivalent personnel.

[2] The Department of Justice is funding the entire Registry (the RCMP expenditures are one component), estimated at $60 million annually in future years for all components.

[3] Informatics covers all information technology services within the RCMP, reported at $103 million. We estimate that of this amount, approximately $20 million was attributable to core services such as CPIC, fingerprint identification and criminal history records.

[4] "Other" consists of allocated overhead costs, such as health services for regular members, *RCMP Pension Continuation Act* payments, and payments to injured members.

[5] Does not include secondments from outside agencies to the RCMP.

Source: Royal Canadian Mounted Police

- a national counterfeit service (currency and travel documents); and

- development and operation of the new DNA data bank, which is expected to become operational in 2000.

7.17 During 1998–99, RCMP laboratories had 316 staff and spent $41 million (see Exhibit 7.2). This includes $11 million that was spent in 1999–2000 to construct new facilities in Ottawa, which are estimated to cost $21.5 million in total.

Forensic laboratories are an essential component of the criminal justice system

7.18 Forensic laboratories have become an important element in many stages of the criminal justice system. There is a general trend in criminal prosecutions to rely more and more on forensic science because it is better able to withstand scrutiny. Similarly, specific forensic techniques are very important to police work.

7.19 The RCMP has carried out a variety of initiatives that have gained it an international reputation. These include the development of an automotive paint database as an international resource for investigations involving motor vehicles. It has also developed a database on glass for use in assisting investigators of motor vehicle accidents and break and enters. In addition, the RCMP is developing a "diamond fingerprinting" database to assist in combatting organized crime activities. Most significant has been the development and implementation of DNA testing.

7.20 DNA analysis is one of the most important tools available to forensic laboratories. Since 1988–89, DNA analysis has been used in Canada to secure convictions — mainly of violent crimes. It has also helped to eliminate suspects and has led to the exoneration of the previously convicted, including Guy Paul Morin and David Milgaard. RCMP laboratories also assisted in the identification of victims from the 1998 Swissair Flight 111 disaster. Analysis of about 1,300 DNA samples contributed to the identification of the 229 victims.

7.21 The RCMP is developing a national DNA data bank for police investigations. The DNA data bank will assist the police in identifying and apprehending repeat offenders by comparing DNA from crime scenes with DNA from convicted offenders. This will aid police in identifying suspects and in reducing the length and cost of investigations. It could also lead to both reducing the number and length of trials and increasing the likelihood of conviction.

DNA analysis is one of the most important tools available to forensic laboratories.

Delayed results increase costs and slow investigations

7.22 DNA technology is a very useful tool for police investigations. However, delays in obtaining results slow police investigations and hamper the ability to eliminate suspects and make arrests

Exhibit 7.2

Forensic Laboratories — Direct Dollar Expenditures by Function

	1998–99
Alcohol	$ 1,325,736
Chemistry	2,066,233
Documents	1,588,139
Counterfeit	585,259
Firearms	1,681,795
Biology	4,660,163
Toxicology	2,104,124
DNA data bank	425,945
Halifax laboratory	5,759,218
Equipment and other	21,096,146
Total	**$ 41,292,758**

Source: Royal Canadian Mounted Police

Note: The Halifax laboratory is shown separately because during 1998–99 it was in operation for only a portion of the year and would therefore have skewed the overall figures. "Equipment and other" includes several items, such as $11 million spent in 1999 to construct the new Ottawa laboratory and employee benefits of about $3 million in 1998–1999.

quickly. Thus, delayed results can significantly increase costs and waste scarce resources. For example, a homicide case on which the laboratory took almost six months to submit its report involved $1.3 million in investigation costs, because police had to resort to expensive investigation techniques. It was estimated that if the laboratory had submitted its report within 20 days, the investigation would have cost $1 million less. Most important, delays in reporting DNA results endanger public safety because criminals have more opportunity to reoffend.

Delays in obtaining DNA results slow police investigations and increase costs.

7.23 Forensic laboratories around the world have found it a challenge to meet the demand for DNA analysis. The 1996 Bernardo inquiry in Ontario by Justice Campbell, involving the Ontario provincial forensic laboratory, best illustrates the impacts of slow response times for DNA analysis. It took over two years for the DNA results, during which the suspect committed four more rapes and two murders. One recommendation of the inquiry was a 30-day turnaround time for DNA analysis.

Police and prosecutors have concerns about delays in DNA analysis

7.24 The RCMP frequently receives very positive comments on quality of service. However, it has also received numerous complaints from both police investigators and provincial attorneys generals about delays in DNA analysis. Exhibit 7.3 provides examples of negative feedback on DNA delays.

7.25 Our data for the three months ending September 1999 indicate that the average turnaround time for DNA analysis by RCMP laboratories was 101 days (Vancouver and Ottawa laboratories average 171 days). This is significantly longer than Justice Campbell's recommendation of 30 days. The RCMP completed only 15 percent of its DNA cases within 30 days.

7.26 The backlog represents the number of cases received that have not been fully completed. As of March 1999, the DNA analysis backlog had fallen to 780 cases, down from 917 the previous year. By October 1999, the backlog had been reduced to 633 cases. Wide variations in workload contribute to the backlog. One laboratory had an average backlog of 28 cases per scientist; another had 13. There were individual scientists with backlogs exceeding 50 cases, representing a year's work.

7.27 The RCMP has taken initial steps to deal with the delays in DNA analysis. It has converted to a second generation of DNA technology. Staff are working with a sense of urgency. The RCMP is now monitoring aspects of DNA performance data at a national level, such as time frames to complete each step, laboratory and individual productivity, and backlogs and workloads. These efforts are focussed on identifying ways to improve efficiency. Officials indicate that resources have been reallocated from other disciplines to DNA analysis, but supporting reports were not available at the time.

Exhibit 7.3

Examples of Negative Feedback on DNA Delays

- "1st degree murder trial . . . DNA [was] crucial evidence for Crown's case . . . [the] time delay for this type of lab request is far too lengthy. Receiving the lab report the day of the trial is not acceptable."
- "Testing was not completed in time to be used to obtain DNA warrant and accused was acquitted at trial."
- ". . . an enormous amount of (police) work could have been eliminated if lab results could have been obtained quicker."
- "The major concern of . . . the homicide investigators is turnaround time on DNA exhibits. Please continue to focus on reducing this time. It is getting better."

Source: RCMP Lab Complaint Files

Waiting for DNA warrants hampers investigations of serious crimes

7.28 In many criminal investigations, police officers seek a DNA warrant to obtain a sample from a suspect to determine whether it matches DNA found at a crime scene. To obtain such a warrant, an investigator must first submit a sample of DNA from the crime scene to a forensic laboratory for "initial screening" to determine if it contains sufficient DNA to compare with a sample from the suspect. Then the investigator must apply to a judge for a warrant to take a sample from the suspect.

7.29 Police investigators using DNA warrants face two delays: the first involves the time taken to do an "initial screening" prior to obtaining a DNA warrant, and the second involves the turnaround time for the full DNA analysis. The RCMP laboratories take an average of 82 days (as of September 1999) to do the initial screening. However, we found that the actual work, once started, can be completed in two days for straightforward cases. The causes of the delays in initial screening are backlogs and lack of prioritization. When the time for the initial screening is added to the 101 days to complete a DNA analysis, the total time averages 183 days. Exhibit 7.4 shows an example of the consequences of such delays.

The RCMP laboratories average 82 days to do initial screening for DNA. The actual work takes two days.

7.30 Historically, RCMP laboratories have used fully qualified DNA experts to perform initial screening tests. As a result,

Exhibit 7.4

DNA Warrant Sample Delay

Sexual Assault of a Child

Day 1: 25 October 1998	Police investigators asked the RCMP Forensic Laboratory Services to examine materials found on the victim for the presence of DNA. If found, the investigator would then seek a warrant to take a DNA sample from a known suspect to compare with the DNA removed from the victim.
Day 116: 17 February 1999	The laboratory confirmed the presence of sufficient DNA. The investigator could then obtain a DNA warrant to take a sample from the suspect.
Day 146: 19 March 1999	The investigator provided the laboratory with a sample from the victim to ensure that the DNA being tested was that of the suspect, not the victim.
Day 188: 30 April 1999	The investigator provided the laboratory with a sample from the suspect, obtained under warrant, to determine if it matched the DNA found on the victim.
Day 227: 8 June 1999	The laboratory confirmed that the DNA of the suspect matched the DNA found on the victim. The probability of another person matching this profile was 1 in 1.6 trillion.

Summary

- The time taken to obtain sufficient evidence to arrest the suspect – 7.5 months
- The time spent in the laboratory before a DNA warrant could be obtained – 4 months
- The time for the investigator to submit a DNA warrant sample – 2.5 months
- The time spent in the laboratory after a DNA warrant sample was obtained – 1 month
- The time taken in the laboratory – 5 months

No priority level was assigned to this case.

Source: RCMP case file

the experts have had to juggle their time between initial screening tests and full DNA analysis. Some RCMP laboratories, however, have begun to use screening "specialists" rather than tie up highly qualified — and more expensive — DNA experts on work that does not require their expertise. The effect has been dramatic. The Winnipeg laboratory, using a screening specialist, completes 81 percent of screening tests within 30 days. By contrast, the Vancouver laboratory, which does not follow this practice, completes only 18 percent of screenings within 30 days. With an average screening time of 82 days, police are either suspending their investigations or using more expensive techniques.

Both police and laboratories have limited DNA analysis to the more serious cases.

7.31 There are no turnaround targets for initial screening tests for DNA warrants that satisfy the needs of the police; nor are there turnaround targets for full DNA analysis that satisfy the needs of the courts. In our view, reduced turnaround times would mean faster, more effective and less costly investigations and court proceedings.

7.32 In consultation with users, the RCMP should establish turnaround targets for initial screening tests for DNA warrants and turnaround targets for DNA analysis. Managers should monitor performance against these targets and take corrective action to improve service.

Laboratories have difficulty managing workload

7.33 Backlogs can occur in any laboratory operation because of increases in workload, insufficient capacity or inefficiency. Strategies to deal with backlogs include prioritizing cases, improving efficiency, contracting out or refusing work, and increasing internal staff.

7.34 The RCMP laboratories have prioritized cases into four levels to reduce backlogs. These range from Priority 1 cases, which are the most urgent (such as murders), to Priority 4 cases, where no prosecution is anticipated. This policy, however, has not been well implemented across all disciplines (biology, chemistry, document analysis, firearms and toxicology). During 1997–98, a majority of cases for all disciplines (11,000 or 56 percent) had not been assigned a priority level. In biology (which includes DNA analysis), an even higher percentage of cases (64 percent) had not been assigned a priority. We found that serious cases in which a suspect had been identified were not being assigned the appropriate priority, and that lower-priority cases were often completed more quickly than higher-priority cases. For example, during 1997–98, cases that had been assigned no priority at all were completed, on average, faster than Priority 1 cases in the disciplines of biology, document analysis and toxicology.

7.35 The time to complete cases varies significantly among disciplines and locations. For example, laboratory performance reports show that the Edmonton laboratory completes 85 percent of its document analysis cases within 30 days but only seven percent of its toxicology cases (see Exhibit 7.5). The same reports show that the Edmonton laboratory completes 91 percent of its firearms cases within 30 days, but the Vancouver laboratory completes only 53 percent within this period.

7.36 Although scientists try their best to respond to urgent investigative requirements, individual efforts alone have been unable to deal quickly with all high-priority cases. For DNA cases completed during the three months ending September 1999, only 35 percent of Priority 1 cases were completed within 30 days.

7.37 The other approach that the RCMP laboratories have used to handle backlogs is to restrict the number of cases they take. At times, both police and

laboratories have limited DNA analysis to the more serious cases (for example, murder and sexual assault). However, other jurisdictions have had success in reducing crime by using DNA analysis for a broader range of cases, including break and enter.

7.38 While the RCMP is having difficulty providing timely DNA analysis, it responds to requests from coroners and medical examiners to perform toxicology analysis for non-criminal cases. These requests are outside the RCMP's mandate and are performed free of charge. It is estimated that this work represents about one third of the toxicology caseload for the Halifax and Winnipeg laboratories. This is not a new issue. Our 1990 Report noted that the RCMP was performing work outside of its mandate, but little action has been taken.

7.39 The RCMP should ensure that priorities are set for all cases and high-priority cases are handled first. All discretionary activity should be reviewed and budgets reallocated.

A national forensic advisory committee is needed

7.40 The need for RCMP services extends beyond the specific requirements of the Force. Other levels of government and members of the law enforcement community rely on the services provided. It is important that users have the opportunity for input in establishing targets and that they receive feedback on results. In the 1998 inquiry into the wrongful conviction of Guy Paul Morin, Justice Kaufman recommended that an advisory committee of outside stakeholders be established to provide this necessary feedback to the Ontario Centre of Forensic Sciences.

Users should have the opportunity to establish targets.

7.41 At present, investigators and scientists consult with each other mainly on a case-by-case basis. There is no formal mechanism for national consultations on issues such as timeliness of service, priority setting and efficiency of operations. In our 1990 audit, we recommended that the RCMP establish an advisory committee of stakeholders.

7.42 The RCMP should establish a national forensic advisory committee.

Quality must be maintained

7.43 It is crucial that forensic work be of high quality because errors could result in guilty individuals going free and innocent individuals being wrongfully incarcerated. Experience has shown that weak quality control in forensic laboratories can raise serious doubts about the integrity of the criminal justice system. For example, the Kaufman Inquiry into the wrongful conviction of Guy Paul Morin looked at concerns about the quality of casework by the Ontario Centre of Forensic Sciences.

It is crucial that forensic work be of high quality because errors could result in guilty individuals going free and innocent individuals being wrongfully incarcerated.

7.44 Our review of client-feedback questionnaires found that clients were pleased with the quality of service that individual scientists were providing. The laboratory managers informed us that over

Exhibit 7.5

Percentage of Forensic Cases Completed Within 30 Days

	Alcohol	Biology	Chemistry	Document Analysis	Firearms	Toxicology
Edmonton	57	33	39	85	91	7
Vancouver	84	29	72	48	53	30

Source: 1998–1999 Laboratory performance reports

the last two years they had not received any complaints about the quality of the scientific work.

7.45 RCMP laboratories are seeking accreditation by the Standards Council of Canada. However, progress toward accreditation has been proceeding much more slowly than planned and is now about two years behind original expectations. This is due in part to requirements to document the laboratory processes in detail, as part of the accreditation process. The methodology manuals for some disciplines were incomplete or out of date and this is a contributing factor in the length of time accreditation is taking.

7.46 Proficiency testing is an important element of quality assurance, and RCMP laboratories have policies covering this area. All laboratories conduct proficiency tests under the direction of the Chief Scientists. However, we found that the proficiency testing program is not adequately implemented or monitored. As a result, senior management has no assurance that the quality assurance program is operating as intended.

7.47 The RCMP should ensure quality in its laboratories by timely accreditation, documentation of methodology and full implementation of the proficiency testing program.

Rationale for the number of laboratories is lacking

7.48 In our 1990 audit, we questioned the rationale for the number of laboratories and their locations. More specifically, we questioned the need for maintaining a firearms capability in every location. By comparison, the U.S. Federal Bureau of Investigation (FBI) handles firearms issues or major cases from a single central laboratory that covers the U.S. territory of Puerto Rico to Alaska.

7.49 In 1990 we also questioned the need for three laboratories in the Prairies and recommended that future decisions to build laboratories consider the costs and benefits that would flow from rationalization. Nevertheless, in 1995 the RCMP opened a new laboratory in Regina at a cost of $12 million and made it full-service, including firearms. In 1999 it completed the construction of a new replacement laboratory in Ottawa, with total costs estimated at $21.5 million. The RCMP did not to do a cost/benefit analysis for the new Ottawa laboratory, stating in an internal memorandum, "Because funding for this project was the result of a Treasury Board initiative to alleviate health and safety issues and not an actual new full service laboratory, a cost/benefit study need not be conducted."

7.50 In 1997, the RCMP set up a task force to review forensic laboratories. The task force observed that the RCMP could save money by reducing the number of laboratories and operating fewer but larger facilities.

7.51 The task force concluded, among other things, that "to sustain six delivery locations does not realize the significant potentials to gain in economy, efficiency and effectiveness . . . resources allocated to administration and management and maintenance of buildings make no direct contribution to priorities." Efficiencies realized through operating fewer but larger facilities could free up resources for reallocation to enhance service.

7.52 The task force analyzed a number of options. For example, it concluded that reducing the number of laboratories in the Prairies from three to one larger laboratory would yield annual savings of over $1 million. The savings would be derived largely from a reduction in management and administrative overhead and building expenses.

7.53 The potential savings calculated by the task force focussed on reduced overhead, support and building

maintenance. However, the potential savings could be even higher because the task force did not consider either the need for periodic capital spending or the underutilization of equipment. Since each of the six RCMP laboratories is a full-service laboratory, much of the investment in buildings and equipment is duplicated. For example, the RCMP maintains six firing ranges, and several laboratories have equipment costing approximately $225,000 per laboratory for measuring the velocity of bullets. The task force did not examine either the utilization rate of these devices and other major equipment or whether the existing inventory would still be needed if services were provided out of fewer but larger laboratories. We believe that if it had examined these issues, its estimate of potential savings would have been higher.

7.54 Between 1993–94 and 1998–99, the forensic laboratories spent approximately $40 million on equipment and facilities, including the cost of replacing its laboratories in Regina and Ottawa. In our view, the recent construction of the Regina and Ottawa facilities was a lost opportunity for the RCMP to rationalize its laboratories.

Performance measurement and management remain a problem

7.55 The performance measurement systems are weak. Insufficient management direction and support from the field have resulted in incomplete, inconsistent and unreliable data. Stakeholders have little information on the level of service at laboratories, and laboratory management does not have the required information on efficiency of specific disciplines at individual laboratories. The RCMP, in conjunction with the stakeholders, needs to develop measurable performance targets.

7.56 The lack of information is reflected in the RCMP's performance reports. Each laboratory and discipline, and the forensic laboratories as a whole, prepares these reports; however, we did not find them useful for assessing year-to-year changes in performance and reasons for these changes. At the departmental level, the portion of the RCMP's 1999 Performance Report dealing with forensic laboratories contained discrepancies. In comparing year-to-year data with the data that we were given, the number of cases handled and the number of staff did not reconcile. In addition, the replacement of the Ottawa laboratory ($11 million in 1998–99 and $21.5 million in total) was included in one table but not in others.

The performance measurement systems are weak.

7.57 Information on level of service is an essential tool for managers to improve service. Other forensic laboratories in the United Kingdom and Sweden have developed effective performance measurement systems for monitoring the level of service and providing stakeholders with information on results.

7.58 The RCMP should ensure that its information management system is fully implemented and its performance reporting is improved.

Canadian Police Information Centre (CPIC)

CPIC is the backbone of the criminal justice system

7.59 CPIC is a system that provides police officers across Canada with key information that they need in pursuing criminals and working to preserve public safety. Through CPIC, the police have immediate access by radio or computer to systems that contain a wide range of critical data, including vehicle and drivers' licences, criminal records, stolen vehicles and boats, and lists of wanted persons (see Exhibit 7.6). These systems also contain data on missing persons and property, penitentiary inmates, parolees, dental files, and a registry of wandering persons (Alzheimer's sufferers, for example) and missing children. CPIC is

CPIC is a system that provides police officers across Canada with key information that they need in pursuing criminals and working to preserve public safety.

also connected with the U.S. National Crime Information Center and individual U.S. state databases.

7.60 The courts, parole boards and government departments and agencies, such as Correctional Service Canada and Canada Customs and Revenue Agency, also use CPIC for a variety of purposes. It is the primary tool for identifying suspects in crimes, accessing outstanding warrants and restraining orders, screening out pedophiles from jobs involving contact with children, flagging dangerous offenders, and identifying missing persons. CPIC is also a key element in enabling the expanded Canadian Firearms Registry to be accessed nationally. Any malfunctioning of CPIC directly compromises the ability of police and others in the law enforcement community to operate.

Availability of CPIC is a concern

7.61 The impetus for CPIC began with a federal/provincial initiative to fight organized crime in 1966. The system consists of a main computer, a communications network, and the local hardware and software that provide users with access to the network. It was originally designed to handle 11 million transactions annually and to accommodate 1,500 points of access. In 1998 the system handled 114 million transactions, 10 times its original design volume. It currently handles more than 15,000 points of access and serves 1,285 police departments and government agencies.

7.62 Even with this growth in demand, users are generally satisfied with the completeness and accuracy of the information that the system provides — when it is operating. The periodic uncontrolled shutdowns cause delays, backlogs and a waste of resources. Numerous reports have noted that the system is "grounded in the technologies of the 1960s, resulting in the system being increasingly at risk of breaking down, and of unauthorized access, given current usage and anticipated demands." There are serious concerns among users about its reliability.

7.63 The RCMP is not routinely measuring and monitoring system availability and is unable to provide us with information for previous years. This is not the case in other jurisdictions. Both the United States (FBI) and United Kingdom (U.K.) systems are monitored and available 99 percent of the time. In

Exhibit 7.6

A Typical CPIC User Scenario

A Vancouver police officer noted a car with Ontario licence plates, parked suspiciously behind a warehouse complex at 2:30 a.m. He immediately contacted his local CPIC (Canadian Police Information Centre) terminal operator by radio. The officer described the car and licence plate and requested a CPIC vehicle file query. In less than 60 seconds, he was informed that the car had been stolen eight days earlier in Halifax. The licence plates had been stolen recently in Toronto. He summoned assistance and maintained observation until other police officers arrived. Soon afterward, two men were apprehended as they entered the vehicle. Descriptions of both men were relayed to CPIC for a query of the wanted persons records. Quick system responses revealed that one individual was wanted for robbery and fraud. The other, a dangerous criminal, was wanted by forces throughout Canada for a series of violent crimes.

Messages to confirm all incriminating information with the originating agencies were then sent through CPIC communications. Meanwhile, a search of the stolen vehicle produced useful supporting evidence: restricted firearms and assorted "customized" burglary tools.

Although police officers always proceed with caution, information related to a high-risk situation or person can give them advance warning of impending problems. It can also help to locate and arrest criminals at large, before they can cause further harm. Poor information in the CPIC system or inability to access it has obvious implications for police officers and the public.

Source: The CPIC System and Network (RCMP Publication)

the U.K., users and senior management are provided with daily information on such areas as system volume, speed of response, system availability and the nature of any interruptions. There are also target rates for response times. The availability of such data would have helped to support the replacement of the present CPIC system.

7.64 In an RCMP study completed in 1999, the project team working on replacing CPIC noted that the network was available only about 89 percent of the time. It was shut down regionally or nationally for about 880 hours per year. Each of these outages affected from 541 to 20,000 law enforcement officers (depending on the size of the area affected). Outages have prevented officers from making almost three million queries and have resulted in almost $13 million in productive time lost. In addition, the central computer mainframe was down about 75 hours, which affected some 20,000 officers and almost a million queries, and represented about $5 million in productive time lost. The study concluded that there is a "high probability that availability of CPIC information to front line law enforcement will decrease further."

7.65 The RCMP should establish targets for response rates and regularly monitor and report on the availability of the CPIC system.

CPIC is not meeting clients' needs

7.66 The existing system cannot accommodate emerging information sources and the new information formats, which improve data analysis and search capability. Most of the suggested changes or upgrades to CPIC put forward by its users in a recent RCMP survey were in four key categories:

- access to additional sources of information, including other jurisdictions' crime databases and federal and provincial databases;
- improved data analysis and search capability, such as the ability to access and analyze fingerprints and to conduct off-line searches;
- additional CPIC functions that are used to analyze, correlate and match crimes to others with similar characteristics (for example, the creation of new files dealing with such issues as gangs and their methods of operation); and
- better security features such as data encryption and better user authentication to prevent unauthorized access to the system.

7.67 CPIC users are also concerned about the system's continuing operation. Some provincial jurisdictions have indicated that they would develop their own information systems to perform CPIC's functions if the system is not renewed. This would result in unnecessary costs, duplication and difficulties in sharing information. We believe that a national role in co-ordinating, maintaining and operating such a system is essential.

In 1988, the RCMP commissioned an external study into the need to update CPIC. The RCMP finally received the funds to replace the CPIC system in April 1999.

Funding for reinvestment in CPIC was not available internally

7.68 In 1988, the RCMP commissioned an external study into the need to update CPIC, and in late 1993 the CPIC Advisory Committee supported a review and redesign of the system to meet future requirements. A project team was established in 1994. Since 1994, three Solicitors General have been briefed on the need for replacement. The Minister of Justice was briefed in 1998 on the importance of CPIC in allowing police forces to access the expanded Canadian Firearms Registry.

7.69 Longer-term investment decisions to renew CPIC were ranked along with decisions about immediate operational needs. For example, in 1998, the project to replace CPIC was ranked 21st on the list of internal RCMP priorities. The project was in a similar

position for the two previous years. Other projects were deemed more essential to the operation of the Force. These projects consumed virtually all of the RCMP's discretionary spending, leaving nothing to revitalize CPIC. The RCMP finally received the funds to replace the CPIC system in April 1999.

7.70 Because the replacement project has been delayed for nearly 10 years, there is uncertainty about whether the existing system will be able to function until the new system is ready. Out of the estimated total budget of $114.7 million for CPIC renewal, the RCMP will need to spend $32.7 million on the first stage, a large part of which will go toward stabilizing the existing system. This will enable it to operate until the new one becomes functional.

Until the new CPIC system is fully operational and stable, the question remains as to how well the current system will function.

7.71 Although the approved budget for the project is $114 million, this figure represents only the "out-of-pocket" costs that the RCMP will incur to upgrade the system. There are also costs of $270 million that other federal and provincial systems will incur, so that they can connect to the new services to be provided by the modernized CPIC. The ongoing operating costs of the new system will not change appreciably from the current system.

7.72 The RCMP should develop a strategy to ensure long-term, timely reinvestment in CPIC.

The CPIC system is finally being renewed

7.73 The project team has now started to develop the new system. The project has been divided into four subprojects and funding approval has been granted for the first one. This subproject is intended to stabilize the operation of the current system. Execution of the other subprojects will be staggered and they will each require funding approval to proceed. They will enhance the capability of the CPIC system to provide additional services not previously possible with the old technology.

7.74 The project is in the early stages. It has encountered a few problems in getting started, and is two months behind the original project schedule. This is because staff are planning the four subprojects at the same time, so they will be ready to proceed as soon as funding becomes available.

7.75 Until the new CPIC system is fully operational and stable, the question remains as to how well the current system will function until the transition to the new system. This is a situation that management needs to monitor closely.

7.76 The RCMP should inform Parliament of the availability of the current CPIC system until the new one becomes operational.

Canadian Firearms Registry

7.77 Since 1934, Canadians have been required to register handguns. About 1.2 million were listed in the Canadian Firearms Registry prior to introduction of the *Firearms Act*. However, it is estimated that up to half of the records in the system were incorrect because the owners had moved, or the guns had been stolen, sold or destroyed.

7.78 The new *Firearms Act*, which came into force 1 December 1998, established a national firearms system to license owners and to register firearms. Gun owners have until 1 January 2001 to obtain a valid licence, and until 1 January 2003 to register all their firearms.

7.79 The Canadian Firearm Registry is part of the RCMP's services to the law enforcement community. It is funded by the Department of Justice under the Canadian Firearms program. At 1 December 1999, the RCMP portion of the resources comprised 404 full-time-equivalent positions and expenditures of approximately $19.1 million. The Department of Justice estimates that the

cost of the system over five years for development and start-up will be $120 million, with annual operating costs of $50 million to $60 million.

Firearms registration has had a limited impact on CPIC

7.80 The Canadian Firearms Registry had a difficult start because the systems and processes had not been fully tested before the Registry was implemented. In May 1999, a consultant's study found that the Firearms Registry was unable to cope with the backlogs even though the number of applications was much lower than forecast. Of the 41,500 licence applications received, only 5,600 were completed. Of the 29,500 firearms registration applications received, only 600 were completed.

7.81 The Department of Justice indicated that 500,000 licences had been issued by 1 February 2000. It estimated that 1.7 million owners remain to be licensed by 1 January 2001. Over 300,000 firearms had been registered, with 6 million to 10 million to be registered by 1 January 2003.

7.82 We did not audit this area in depth because the legislation was new and operations at the Department of Justice and the RCMP were just starting. However, we determined that the slow rate of licensing and registration indicates a limited impact on CPIC to date.

Criminal History Records

7.83 The RCMP maintains over 2.8 million criminal history records. These records account for much of the information that law enforcement agencies routinely access through the Canadian Police Information Centre. The information is used by police officers in their day-to-day operations and is shared with Interpol and the FBI.

7.84 Criminal history records and fingerprints are the pieces of evidence introduced most often as exhibits in criminal cases in the Canadian courts. They are used for identification purposes, sentencing decisions, bail hearings, paroles and pardons. They are also used in penitentiaries to assist in developing rehabilitation plans for prisoners. Security checks and reliability screenings are run against the 2.8 million records.

7.85 In 1997, as a result of Program Review, the RCMP began to convert the 2.8 million microfilmed criminal history records to digital images. This resulted in a reduction of 35 full-time-equivalent personnel who had worked with the old microfiche-based system. Service to clients has improved dramatically because criminal records can be retrieved in seconds by computer. The conversion of all microfiche was completed successfully by 31 March 1999.

The backlog is unacceptable

7.86 Although criminal history records are invaluable and readily accessible, they are not current; a significant backlog of information is waiting to be processed. There are delays of more than two months in entering records of new criminals and new crimes of "old" criminals into the system, and some files have taken over five months. The RCMP has not set targets for acceptable levels of service.

7.87 The reason for the backlog is a lack of available funds to hire staff to speed up the processing of records. However, opportunities to reinvest revenues resulting from cost recovery have not been taken. For example, we found that through an administrative oversight, the RCMP did not collect its share of certain revenues from 1995–96 to 1997–98 under a cost recovery agreement with the National Parole Board. As a result of this oversight, which was discovered in 1999, the RCMP gave up more than $1.2 million to the government's general coffers that it could have used to improve national services.

Although criminal history records are invaluable and readily accessible, they are not current; a significant backlog of information is waiting to be processed.

The RCMP has received complaints from the police and the courts about delays in fingerprint identification.

7.88 Like the delays in DNA analysis, any backlog of criminal history information can have serious implications for the police, courts, parole boards and others if they do not have current information on recent crimes.

7.89 Another area of concern is delays in responding to security checks. Those affected by waiting for results include volunteers who apply to work with children, and applicants for visas, citizenship and landed immigrant status, and jobs in the public and private sectors. Standards or targets are needed to provide a basis for review and to set out corrective action.

7.90 There was a shortfall of $2.7 million in the salary budget for the criminal records function, which represents salaries for about 80 full-time staff. The shortfall for the current fiscal year was covered temporarily, but budgets need to be set to provide necessary service.

7.91 The RCMP should establish turnaround targets and determine the systems, processes and resources required to eliminate the backlog for criminal history records.

Fingerprint Identification

7.92 The RCMP maintains fingerprints for each of the approximately 2.8 million criminal history records that it manages. In 1998–99, the Force conducted about 260,000 fingerprint searches. Another 28,600 fingerprints from crime scenes were processed and compared against prints in the database, resulting in the identification of 6,700 criminals (see Exhibits 7.7 and 7.8).

The backlog is a concern

7.93 The backlog for entering new fingerprints into the system and checking fingerprints has been increasing substantially since January 1997, when it stood at about 5,500. Two years later, at December 1998, the backlog had grown to about 25,000. As a result, turnaround times have increased from about 10 days in 1997 to about 25 days in 1999 and are continuing to increase. The RCMP has not set targets for acceptable turnaround times.

7.94 The RCMP has received complaints about delays in fingerprint

Exhibit 7.7

A Single Fingerprint Can Lead to Numerous Convictions

On 28 February 1995, two shots were fired from a stolen van on a Montreal street, killing a man in a nearby car. The van was soon recovered, along with a single latent fingerprint on a map in the van. The print was transmitted to the central site in Ottawa. Within the hour, the gunman had been identified. When confronted with the evidence of the fingerprint identification, he agreed to become an informant. He was also convicted of five counts of murder, 13 counts of conspiracy to commit murder, and various weapon offences. His testimony aided in the arrest and conviction of numerous gang members.

Source: RCMP Performance Report to Parliament, 1998–99

Exhibit 7.8

Award for Excellence

In 1994, the RCMP received a "Hit of the Year" award from Printrak International (an equipment supplier). The award was for solving a gruesome murder case in New Brunswick in only two days, by lifting a crime-scene print and checking against the fingerprint database. The murderer was not one of the four suspects the RCMP had initially identified. He had left New Brunswick and, through the use of fingerprint technology, was located in the Hamilton region. The RCMP said more murders were likely if the individual had not been apprehended. He had already committed a murder before going to New Brunswick.

Source: RCMP Quarterly, Fall 1995 (RCMP Publication)

identification from the police and the courts. We understand that some delays result from the police and other agencies submitting poor-quality prints for analysis. Other delays may arise from internal mailroom bottlenecks and large batches of prints submitted at the same time. However, if the system is to be effective, the backlog must be eliminated promptly. This would assist in identifying criminals more quickly and, in turn, would reduce the cost of investigations.

7.95 The RCMP should establish turnaround targets and determine the systems, processes and resources required to eliminate the backlog in fingerprint identification.

Criminal Intelligence Service Canada

7.96 Criminal Intelligence Service Canada (CISC) is a service that unites Canadian police agencies in the fight against organized crime. The purpose of CISC is to enable all Canadian law enforcement agencies to share intelligence and to promote co-operation among them.

7.97 Organized crime is a multi-billion dollar phenomenon that affects all Canadians. It undermines the domestic economy and poses a threat to society. Since organized crime is continuing to grow at a substantial rate, a co-ordinated effort by law enforcement agencies is essential.

Criminal intelligence is increasingly important

7.98 CISC consists of a Central Bureau located in Ottawa with a budget of less than $1 million and a complement of 15 staff. It also has nine staff on secondment from, and funded by, police agencies and government departments involved in criminal intelligence. The organization is linked to nine bureaus across Canada, which supply a total of 98 additional staff and are funded from federal, provincial and municipal resources.

7.99 In March 1999, CISC entered into an agreement with a private software company to further develop a computer data bank (the Automated Criminal Intelligence Information System — ACIIS II).

7.100 The total number of agencies using ACIIS II is increasing, with 347 using it in 1998 and 378 in 1999. The support and use of ACIIS II as a national system continue to grow. The Solicitor General supported it in his National Action Plan on Organized Crime. Some partners, such as Ontario, Quebec and the RCMP Criminal Intelligence Branch, have chosen to maintain their own systems and must therefore enter duplicate data into ACIIS II and their own systems. While organized crime has become more globalized with increasingly sophisticated technology during the last decade, CISC's budget has remained static at about $1 million.

7.101 Solicitor General Canada noted in its 1998 "National Action Plan on Organized Crime" that current resources are not adequate to complete the ACIIS II project and maintain the system over the long term. It recommended that "the federal and provincial governments should allocate more resources to enhancing the capacity of CISC and support the full development and implementation of the ACIIS II computer system."

7.102 CISC has also been working internationally to lay the groundwork for joint research in the area of Organized Crime Prevention. While a proposal has been written, including costing and timelines, CISC continues to explore ways of acquiring funding for this project. In addition, CISC has a variety of training aids and courses whose offerings are dependent on resources. Its national workshop is currently operating at a deficit, and last year only three of its

While organized crime has become more globalized with increasingly sophisticated technology during the last decade, the budget of Criminal Intelligence Service Canada has remained static at about $1 million.

criminal intelligence courses were offered due to a shortfall.

7.103 The RCMP should review the current efforts by all partners of Criminal Intelligence Service Canada in light of its overall strategy for dealing with organized crime.

Canadian Police College

7.104 The Canadian Police College provides management and technical training to Canadian and foreign police personnel. Technical courses cover topics such as fingerprinting and bomb disposal. The College also conducts and co-ordinates research to identify trends in policing, and distributes information on topical issues. During 1998–99, the College had a staff of 89, provided training to 1,832 participants and earned almost $2.5 million in revenue.

7.105 In 1990 we were critical of the College's training in two respects. First, its management training was not well respected in Canada. The course for senior management was mainly a repeat of the preceding course for more junior levels. Most individuals preferred the course given in the United States by the FBI. We also noted that the College offered nothing for those in the upper management levels of police organizations, such as chiefs of police. This kind of program is important because the management skills required to run police organizations effectively are not necessarily learned in progressing through the ranks.

7.106 Our second concern in 1990 was that the course curriculum was more reflective of a technical training college for police. For example, numerous offerings such as "train the trainer" courses could be easily obtained elsewhere across Canada. We recommended that the College widen its advisory committee membership to include people from other teaching institutions, such as retired university chancellors and business school faculty. Such an advisory committee could help the College broaden its perspective on how to improve the quality of its management course offerings.

Change has been slow

7.107 In 1995 the College carried out a study of its purpose, role and activities, a survey of the Canadian police community and a staff survey.

7.108 In 1998 the College evaluated 21 of its courses. The evaluation recommended that seven be discontinued and that the two management courses be modified within a new management leadership program. The College has also started to establish the Canadian Association of Police Academy Directors to develop a national training strategy.

7.109 In 1994 the College moved to a cost recovery model for its training courses. This change in approach has affected the College and its clientele both positively and negatively. Once clients had to pay to attend courses, their identification of who and how many should attend improved significantly; this permitted the College to improve its course planning and scheduling. There were fewer cancellations and fuller classrooms and residences, which enabled the College to deliver training services more cost-effectively. However, while the College has significantly increased its revenue over the past year, it is still more than $1 million short of this year's target of $3.5 million.

7.110 The move to cost recovery has not been without its problems. Although advance notice was given to clients so they could budget accordingly, many police forces see the change as a downloading of costs to their jurisdictions. Given the current budgetary problems that many police forces are facing, a number of these forces are sending fewer students than they did previously.

7.111 The Canadian Police College has remained embedded in a model of

traditional classroom learning at the college campus. It needs to reflect new models of learning organizations and knowledge management. It also needs to respond to emerging trends in technology, legislation, user needs and demographic changes in its clientele.

7.112 It is important that the College make the necessary changes to ensure that its relevance as a training institution is not eroded further. It recently proposed a new business model that will address such issues as governance, financial structure (including cost recovery), advisory committees, partnerships with universities and other police training agencies, increasing its client base, and alternative approaches to both the curriculum and the methods of delivery. These are steps in the right direction.

7.113 The Canadian Police College should implement the changes it has proposed to transform its approach.

Reporting Information

Reporting of information is weak

7.114 We found minimal financial and performance information on the RCMP business line that it calls "National Police Services". Information in the RCMP's Performance Report was scant, and inconsistent with what we obtained from other sources. The RCMP Report on Plans and Priorities shows that these services spend $189 million, almost half of it for informatics. In reality, only a small portion of informatics spending is for services to the Canadian law enforcement community.

7.115 We found that supporting information was not available. It was difficult to get a breakdown of specific expenditures, especially in such areas as informatics, capital expenditures and firearms registration. For example, in billing the Department of Justice for the cost of operating the Canadian Firearms Registry, staff had to create a spreadsheet in order to prepare invoices, rather than rely on the financial and human resources system.

7.116 There was no historical information in many areas to permit trend analysis of expenditures. Information the RCMP provided to Parliament in its 1998–99 Report on Plans and Priorities (Part III Estimates) was inconsistent with that contained in its internal business plan (see Exhibit 7.9). It was also inconsistent with other information we obtained from the RCMP. For example, while the Report on Plans and Priorities reported 1,693 full-time-equivalent staff (FTEs) in the organizational units within the business line, the business plan specified 925 FTEs, and the human resources system 1,255 FTEs.

7.117 The RCMP should improve the information it reports to Parliament.

Collaborative Arrangements

Responsibility for funding is not clear

7.118 The RCMP has been providing services to the law enforcement community for almost a century. Fingerprint and criminal history records bureaus came into being in 1908. The first forensic laboratory was established in 1937.

The Canadian Police College has remained embedded in a model of traditional classroom learning.

Exhibit 7.9

Differences in National Police Services Information

	1998–99 Report on Plans and Priorities Provided to Parliament	RCMP Internal 1998–99 National Police Services Business Plan
Capital	$ 26.5 million	$ 1.9 million
Total Expenditures	$ 189 million	$ 58 million
FTEs*	1,693	925

* full-time-equivalent staff

7.119 In 1966, the federal government and the provinces met to address their concerns about organized crime. From those meetings, an understanding emerged that old services such as fingerprint identification and criminal history records should be strengthened and a new system like CPIC should be added. CPIC would make it possible for the police as well as others to access a range of data banks by radio, 24 hours a day. The federal government provided the funding for that initiative. In the more than 30 years since that conference, there have been changes in the services needed and in the funding arrangements.

The federal government and the provinces recently agreed to share the costs of biology casework (essentially DNA analysis).

7.120 The six RCMP laboratories are paid for by the federal government; however, the main beneficiaries are the provinces. On the one hand, over 85 percent of the casework is for provincial and municipal agencies. On the other hand, areas such as the DNA data bank, examination of counterfeit currency and travel documents, quality assurance, and forensic research and development are clearly national responsibilities.

7.121 The federal government took part of the responsibility for funding these services in 1966. The provinces and municipalities were responsible for the costs of collecting and entering most of the data. However, tensions have persisted between the levels of government about the level of services provided and the responsibility for funding. There have been new arrangements on some issues but the 1966 understanding has not been revisited. Arrangements for individual services are being developed, leaving a patchwork of arrangements, lack of clarity on funding and lack of collaboration on all the services.

7.122 The federal government and the provinces recently agreed to share the costs of biology casework (essentially DNA analysis). Starting in 2001, the provinces will pay 55 percent of the average national RCMP cost per biology case for designated offences. As Ontario and Quebec have their own laboratories, the federal government will reimburse them 20 percent of the average costs for their casework in this area. The federal government will be responsible for the creation and funding of the national DNA data bank and the DNA analysis of samples obtained from designated convicted offenders in the provinces.

7.123 The government should ensure that agreement is reached with all stakeholders on the national services needed, funding arrangements, structure and accountability.

No mechanism exists to manage these services as a business line

7.124 The overall management of the national services needs to be improved. Each service — laboratories, identification (fingerprints and criminal history records), firearms registration, the Police College and criminal intelligence — essentially manages its own area. The services lack a common identity. There is a need to improve the mechanism for deciding where to allocate scarce resources. Would laboratory funds be better used to reduce the criminal history records backlog or to do more criminal intelligence work? Should new services like forensic analysis of computers be added? There is no national advisory committee that can provide advice on which services are required, the levels of service, funding needs and arrangements, allocation of scarce resources and the need for new services.

7.125 This area has been reviewed a number of times over the past decade, including:

- 1990 Report of the Auditor General, Chapter 27
- 1997 Solicitor General's Report on National Police Services
- 1998–99 RCMP Alignment Initiative (on forensic laboratories)

- 1999 Treasury Board Resource Review of the RCMP.

There is a need to move forward and to respond to the recommendations made by these reviews.

7.126 The RCMP should consolidate its national services and establish a common identity with unified operational and strategic planning across the business line.

Conclusion

7.127 The RCMP provides a range of services that are essential to the Canadian law enforcement community. These services include fingerprint identification, criminal history records, forensic analysis, criminal intelligence and on-line access to data banks such as vehicle registration and drivers' licences. The efficiency and effectiveness of many aspects of law enforcement rely on timeliness and quality of service.

7.128 The RCMP has taken a number of initiatives to improve service. For example, its effort to keep the 30-year-old CPIC system operational and handling substantially higher volumes than it was designed to do is commendable. It has also introduced DNA analysis, which has had a significant impact on police investigations and prosecutions, and it is developing a DNA data bank and an automotive paint database. After recent upgrades, fingerprint identification and criminal history records both require less clerical assistance to function. Unlike systems in other jurisdictions, these services contain the fingerprints and records of all criminals sentenced in Canada. Finally, the CPIC Advisory Committee is an excellent example of effective user input.

7.129 The levels of service that the RCMP provides do not meet the needs of its clients. For example, CPIC is unavailable 11 percent of the time. DNA analysis takes too long and is limited to only the most important cases. Accordingly, its full potential to cut the costs of police investigations is not being realized. Backlogs of up to two months exist for criminal history records and fingerprints waiting to be input to data banks. Therefore, the records and fingerprint data available to the police and others are not current. As well, criminal record checks required by employers or volunteer organizations take too long.

The RCMP has taken a number of initiatives to improve service, but the levels of service that it provides do not always meet the needs of its clients.

7.130 Users of the services often cannot provide input into the management of these services. For example, CPIC has an excellent advisory committee but forensic laboratories do not have one at all. Where there are such committees, the membership is mainly police, although courts, corrections, parole boards and the public are also users of these services.

7.131 Some services are not run efficiently. In forensic laboratories, cases are not prioritized. Less urgent cases are often completed ahead of urgent cases, and caseloads and backlogs vary widely among the laboratories. There are questions of whether the RCMP needs six full-service laboratories and why it built new laboratories in Ottawa and Regina without thoroughly analyzing the potential for rationalizing laboratory services and the potential benefits.

7.132 Tremendous potential exists to strengthen the criminal justice system by improving these services. For example, having the results of DNA analysis routinely available when investigators have just begun their work would significantly reduce investigation costs and improve public safety.

Tremendous potential exists to strengthen the criminal justice system by improving these services.

7.133 Our 1990 audit raised questions about the management of these services, the need to rationalize forensic laboratories, performance measurement, the need for user input and planning for the future. This audit showed that the same concerns still exist:

- There is no advisory committee for laboratories.

- Methodology manuals are not up-to-date.

- Performance measurement is weak.

- A strong identity and integrated management are needed.

7.134 If these services are to meet the needs of the law enforcement community and contribute to public safety, changes are necessary. These changes include better management, a clear vision of the current and future direction of the services, adequate resources, collaboration among all the stakeholders to determine who should pay and what level of service they should expect in return, and a heightened sense of urgency to resolve the concerns.

***Royal Canadian Mounted Police's overall response**: The RCMP concurs, in general, with the recommendations and observations made in the chapter and appreciates the co-operation that we received from your Office.*

The chapter includes observations that: the levels of service provided by National Police Services (NPS) do not meet all of its clients' needs; senior management should ensure that appropriate action is taken to eliminate backlogs in many of the services and to improve efficiency; the 1966 arrangement between the federal government and the provinces for these services should be reassessed; and consideration should be given to the establishment of a national forensic advisory committee and to the development and measurement of performance standards.

First, the RCMP, through NPS, provides a set of essential national services to all members of Canada's law enforcement community. It should be noted that part of the problem with backlogs in many of the services was due to a systematic underfunding of these services that was brought about, in part, by the balancing of scarce resources with priorities and health and safety concerns. Additional resources will have to be allocated accordingly.

We have included, for your information, brief comments from each of the NPS areas discussed in the chapter, as follows:

Criminal Intelligence Service Canada (CISC)

CISC is pleased with the chapter's emphasis on the Automated Criminal Intelligence Information System (ACIIS II), which CISC continues to develop and promote as Canada's national criminal intelligence system in the fight against organized crime.

The chapter states that the budget for CISC has remained static at approximately $1 million annually despite the globalization of organized crime and increasingly sophisticated technology. We agree with this statement and consider that additional resources to fund and share the right intelligence among partners in Canadian law enforcement agencies will go a long way to combat organized crime.

Forensic Laboratory Services Directorate (FLSD)

The FLSD acknowledges the findings of the Auditor General's review of forensic laboratories. A meeting of the Directorate's senior managers was held to discuss and find ways of improving the service delivery to the clients. Issues resulting from discussions were divided into a short-term work plan and long-term projects. The short-term work plan includes the following action items:

- *Laboratory management will monitor and enforce the use of the priority system and the adherence to diary dates. There will be a continued triage of cases by priority and there will be ongoing dialogue with users. A high priority will be given to cases where laboratory reports are required to seek a DNA warrant.*

- *A national caseload controller has been appointed.*

- *After allowing jurisdictions that do not have alternative service providers some time to make alternative arrangements, requests for toxicology analysis in non-Criminal Code cases will no longer be accepted by RCMP laboratories; this will allow resources to be redeployed to DNA or other priority areas.*

- *An advisory committee will be established.*

Long-term projects focus primarily on the delivery of service within the entire Directorate. They will likely include the consolidation of some services and the creation of centres of specialization, as well as improvements in management information systems and performance monitoring. A team is presently being formed to implement changes in an expeditious manner, progressively and within a maximum three-year time frame. The project manager will be required to conduct progress reports and to provide these to the Senior Executive on a quarterly basis.

Canadian Police College (CPC)

A new business model for the Canadian Police College was recently developed and submitted for discussion. Concrete actions have since been taken. The College will be a knowledge-based establishment dedicated to advancing the policing profession. As indicated by the Office of the Auditor General, the content of the new business model is regarded as "steps in the right direction".

The CPC was slow to change in the early 1990s due to many demands of a financial nature that had to be met in very tight time frames (e.g. Program Review and Cost Recovery). By mid-decade, the management of the CPC realized that a strategic direction was necessary to manage the changes that continue to challenge the College.

The management of the CPC acknowledges the shortcomings raised in the chapter. Difficult decisions in the area of human resources will have to be made so that the College can secure a strong foundation to meet new challenges.

Information and Identification Services

The comments in the chapter on the vulnerability of the current Canadian Police Information Centre (CPIC) system are acknowledged. This vulnerability has been recognized for some time and significant efforts were required to identify and obtain project approval during the period of restraint. CPIC renewal is currently well under way, and one of the first projects to be initiated will stabilize and improve the availability of the existing system.

While there are delays in the opening of new criminal record files and in the updating of existing files, the opening of these files is given the highest priority and is controlled through separate records management streams. At the same time, there are also delays in entering new fingerprints and in checking fingerprints for existing records. Again, separate records management streams are used to monitor and control the work flow. For both of these concerns, a business case has been developed and presented to address the adequate resource levels required to respond to the current and projected workloads. A process review is also under way and will address the streamlining of work processes, a strategy to deal with backlogs, the establishment of turnaround targets and standards, and the improvement of client services.

The RCMP recognizes that this chapter raises a number of important points and concerns related to the management, control and monitoring of National Police Services, and provides a blueprint to build upon. Our objective of a single-point accountability for NPS resulted in the recent decision of the Senior Executive Committee to create the role of Deputy

Commissioner NPS — Technical Infrastructure. This decision will greatly improve this organization's ability to efficiently and effectively deliver the services.

The RCMP will pursue the development of an advisory committee for NPS, and a committee is being established to implement, in an expeditious manner, the changes recommended in this chapter. This committee will report to our Senior Executive Committee on a quarterly basis. Let us assure you that the senior management of the Force is committed to addressing the recommendations contained in the chapter.

About the Audit

Objectives

The objectives of this audit were to determine:

- whether the RCMP has improved its essential services to the law enforcement community and whether it has made progress in responding to areas of concern identified in previous audits and studies; and
- the extent to which the RCMP has the capacity, structures and procedures to respond effectively and efficiently to the needs of clients in the next decade.

Scope

Although national services to the law enforcement community represent only about six percent of the RCMP's spending, they play an essential role in the criminal justice system. Our audit focussed on forensic laboratories, the criminal history records system, the Canadian Police Information Centre and its relationship with the Canadian Firearms Registry, the fingerprint identification system, the Canadian Police College and Criminal Intelligence Service Canada. We last reported on this area in our 1990 Report, Chapter 27.

Criteria

We expected that:

- levels of service would be adequate;
- mechanisms for user input would be appropriate;
- services would be provided efficiently and economically;
- a management structure would facilitate accomplishment of the RCMP's mandate; and
- funding and human resources would be adequate to meet user requirements.

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Report of the Auditor General of Canada to the House of Commons – 2000

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Report of the Auditor General of Canada to the House of Commons

Chapter 8
Department of Finance –
Managing Canada's Debt: Facing New Challenges

April 2000

Report of the

Auditor General of Canada

to the House of Commons

Chapter 8

Department of Finance –
Managing Canada's Debt: Facing New Challenges

April 2000

This April 2000 Report comprises 9 chapters as well as a Foreword and Main Points. In order to better meet clients' needs, the Report is available in a variety of formats. If you wish to obtain another format or other material, the Table of Contents and the order form are found at the end of this chapter.

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Chapter 8

Department of Finance

Managing Canada's Debt: Facing New Challenges

The audit work reported in this chapter was conducted in accordance with the legislative mandate, policies and practices of the Office of the Auditor General. These policies and practices embrace the standards recommended by the Canadian Institute of Chartered Accountants. The numbered paragraphs in bold face represent recommendations.

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Department of Finance

Managing Canada's Debt: Facing New Challenges

Main Points

8.1 Canada's debt management program is a well-run operation overall. But like any program that faces a changing environment, it needs to adjust. We have noted three areas where the Department of Finance needs to review its practices. These include:

- establishing a more complete range of performance measures to ensure that it has a sound basis for assessing how well the program is doing at meeting its objectives. Currently, the Department uses a variety of information internally but reports its performance for only one target — the ratio of fixed-rate debt to the total debt, now at two thirds;
- improving transparency to ensure that that there is a public accounting of not only the benefits of decisions on all aspects of debt management but also the costs. In recent years, the government significantly increased the proportion of fixed-rate debt and the level of foreign exchange reserves, and established targets for retail debt — all without disclosing the expected costs of these decisions; and
- modifying the management of strategic planning by consulting a range of outside experts to ensure that the Department obtains complete and independent advice.

Background and other observations

8.2 At the end of 1998–99, Canada's interest-bearing debt stood at $595 billion and the annual interest charges on that debt amounted to $41.4 billion. Managing the debt is the responsibility of the Department of Finance, working in conjunction with the Bank of Canada and the Canada Investment and Savings agency.

8.3 The principal objective of the debt management program is to provide stable, low-cost funding for government operations while keeping liquid the domestic markets for that debt. Another objective is to ensure that there are adequate reserves in the Exchange Fund Account to moderate volatility in the exchange rate on the Canadian dollar.

8.4 We found that the people who manage this program are a highly committed group. They closely monitor fiscal and economic developments that could affect debt management operations, and they consult regularly with financial market participants. They use sophisticated modelling techniques to identify debt management risks and to choose appropriate debt strategies.

8.5 Our audit dealt not so much with the choices debt managers make or the analysis underlying those choices as with the way they measure performance, the information they report, and the governance of the program.

8.6 Over the last few years, the government has made some major decisions in managing the federal debt. It has increased the proportion of longer-term, fixed-rate debt to two thirds of the total, some 18 percent higher than three years ago. While fixed-rate, longer-term debt makes the government's interest costs more predictable and reduces rollover risk, it generally costs more because long-term interest rates are normally higher than short-term rates.

8.7 Over the same three-year period, Canada's foreign exchange reserves have more than doubled, to US$25 billion. A higher level of foreign reserves improves the government's ability to promote stability in the value of the Canadian dollar, and also provides a larger pool of funds that can be used to finance unanticipated needs. But this comes at a cost, because the interest paid on foreign currency borrowing is normally higher than the interest earned on foreign reserve assets.

8.8 We also looked at retail debt — the sale of Canada Savings Bonds and Canada Premium Bonds. We noted that despite renewed attention to the sale of these bonds and the creation of a special operating agency to market them aggressively, we have seen no conclusive evidence that retail debt is cost-effective. We encourage the government to review the role of the retail debt program and its cost implications. We also encourage the government to disclose the results of this review when it completes it.

The Department's response to our recommendations are included in this chapter. For the most part, the Department accepts the thrust of our recommendations and indicates how it is responding to them.

Introduction

8.9 In our November 1996 Report we published a study on federal debt management, which looked at how the government organized and ran its borrowing program. At the time of our study, the federal government had recorded a deficit of nearly $30 billion for 1995–96. In each of the previous five years, it had recorded a deficit of more than $30 billion. As the study noted, those years were "a period of rising levels of federal debt and volatile interest rates, and one in which the federal government's credit ratings were lowered."

8.10 The government's fiscal situation has certainly turned around since then. Today, huge and seemingly intractable deficits have been eliminated. The surplus the federal government expects for the current year will be the third it has recorded in a row. An annual surplus is projected over the next several years as well. Moreover, the ratio of federal debt to GDP fell from a peak of 71.2 percent in 1995–96 to 64.4 percent at the end of 1998–99.

8.11 Despite this dramatic turnaround, there are signs that any undue optimism should be tempered. In 1998 the combined debt-to-GDP ratio of Canadian governments (measured on a national accounts basis) stood at 62.6 percent — the second-highest (after Italy) among G–7 countries, which average 48.3 percent. And despite reductions in both the debt and interest rates over the past two years, the stock of debt is still very large; public debt charges remain the largest single item in the federal government's spending. At $41.5 billion, the debt service charges projected for the current fiscal year represent nearly 26 percent of total federal spending.

8.12 For government debt managers, the reversal from a growing debt to a declining one has generated a new set of challenges. When debt was rising, new debt issues exceeded retirements, giving debt managers flexibility to adjust the composition of debt through their choice of new issues. In an era of budget surpluses, maturing issues exceed new ones, and the composition of the debt is thus determined largely by the maturity profile of the debt still outstanding. A central concern of debt operations in this environment is how to retire maturing debt with minimum disruption to financial markets.

Focus of the audit

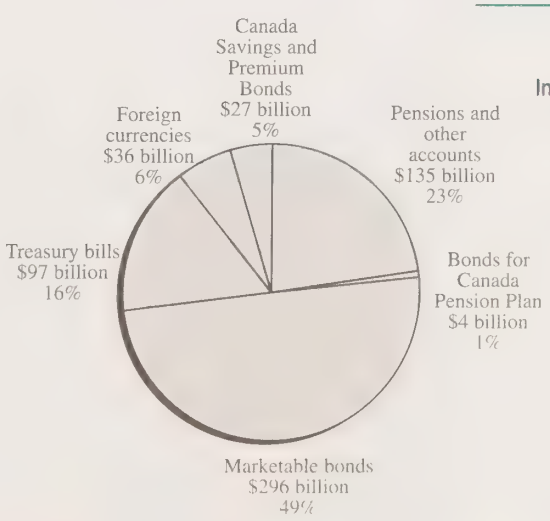
8.13 Debt management does not deal with the *size* of the debt: that is determined essentially by the government's fiscal policy and the effects of that policy on the economy. Rather, debt management relates to the ways the government raises funds to meet its financial requirements, what it decides and does about the composition of the publicly held debt, and how it governs these activities. These decisions and activities were the focus of our audit.

8.14 At the end of the 1999 fiscal year, the federal government's interest-bearing debt stood at $595 billion (see Exhibit 8.1). This comprised non-market debt of $135 billion and market debt of $460 billion.

For government debt managers, the reversal from a growing debt to a declining one has generated a new set of challenges.

Exhibit 8.1

Interest-Bearing Debt for Fiscal Year 1998–99



Total – $595 billion

Source: *Public Accounts of Canada 1998–1999*, Volume 1, Table 6.1

The fundamental objective of debt management is to raise stable, low-cost funding for government operations.

The government borrows in foreign currencies to maintain reserves at an adequate level to smooth fluctuations in the value of the Canadian dollar on foreign markets.

8.15 Most of the government's non-market debt is owed to public service pension plans.

8.16 Market debt is the part of the debt that the government raises in financial markets. It includes marketable bonds and Treasury bills, Canada Savings Bonds and Premium Savings Bonds, and bonds and bills in foreign currencies.

8.17 Our audit looked at how the government measures the effectiveness of its debt management program. We assessed aspects of the program's management, focussing primarily on the Financial Markets Division of the Department of Finance. Because the Bank of Canada acts as the fiscal agent for operational aspects of debt management, we also reviewed information it provided. The audit also included Canada Investment and Savings (CI&S), the special operating agency responsible for the retail debt portion of federal market debt. Exhibit 8.2 briefly discusses the roles of these three players.

Observations and Recommendations

Objectives of Debt Management

8.18 The fundamental objective of debt management is to raise stable, low-cost funding for government operations. A related strategic objective is to maintain a well-functioning domestic capital market for Government of Canada securities. Besides being important to the economy's overall performance, a well-functioning domestic capital market facilitates trading in government securities. This makes it easier for the government to issue debt, and it contributes to lower borrowing costs.

8.19 The government borrows in foreign currencies to maintain reserves at an adequate level for intervention to smooth fluctuations in the value of the Canadian dollar on foreign markets, and for general liquidity purposes.

8.20 These objectives are typical of government debt managers the world over and have remained constant over the past decade. But the means of achieving them have varied with changing circumstances.

General Approach to Debt Management

8.21 The government issues debt in both domestic and foreign currencies; about 92 percent is in Canadian dollars. In both the domestic and the foreign currency markets, its task is to construct debt portfolios that seek a balance between cost and risk. In the domestic market, the government follows a "strategic" approach to borrowing. It

Exhibit 8.2

Federal Debt Managers

The Department of Finance, in conjunction with the Bank of Canada and Canada Investment & Savings (CI&S), the government's retail debt agency, manages federal market debt. The Financial Markets Division of the Department of Finance provides analysis and develops policies and recommendations for the federal government's borrowing programs, including borrowing for official reserves and managing financial risks.

The Division works in partnership with the Bank of Canada, the government's fiscal agent, in all aspects of debt management. As fiscal agent, the Bank of Canada is specifically responsible for the operational aspects of debt management, for example, conducting the auctions of government debt, issuing debt instruments, making interest payments and borrowing in foreign currency. The Bank also has responsibility for monitoring market activities and advising on debt management policy, as well as operating the government's Risk Management Unit.

CI&S has primary responsibility for managing the retail debt portion of federal market debt. It is a special operating agency of the government and is responsible for contributing to the fundamental objective of debt management – stable, low-cost funding. It does this by developing and implementing the retail debt component of the federal government's domestic debt program.

Source: Department of Finance, *Debt Management Report*, 1998–99

focusses on cultivating a relationship with the market based on trust and "no surprises" (for example, through a preannounced issue calendar, transparent operations and standardized issues of debt), on the assumption that over the long term this will lead to lower borrowing costs. In contrast, Canada follows an "opportunistic" approach in the foreign currency market. It seeks the lowest possible borrowing cost with each debt issue while maintaining a presence in all segments of the market. Most developed countries follow similar approaches to borrowing.

8.22 Following a strategic approach does not mean being passive in the market. In our view, the government is active any time it participates in the secondary market — engaging in currency or interest rate swaps or buybacks, for example. Its approach switches from strategic to opportunistic when it tries to act on opportunities in the market, where and when they arise.

8.23 Key strategic objectives of the government's domestic debt operations include:

- maintaining a prudent maturity structure;
- improving the liquidity and efficiency of the market in government securities; and
- promoting a broad distribution of holdings of government debt.

8.24 In foreign currency debt operations, the major objectives include:

- maintaining an appropriate level of reserves;
- minimizing the cost of carrying the reserves; and
- managing risk prudently.

Debt maturity structure

8.25 The government issues debt instruments with terms to maturity that range from a few days (for cash management bills) to bonds of 30 years. How to distribute debt issues along this maturity spectrum is a key decision for debt managers, hinging on several considerations. Among these are funding costs, stability of debt service charges and the potential impact on domestic securities markets. What makes the decision particularly tricky is that these considerations all involve trade-offs.

8.26 Long-term debt is generally more costly than short-term debt. However, it makes future funding costs more predictable and reduces rollover (or refinancing) risk — the risk that maturing debt instruments cannot be refinanced within limits acceptable to the borrower. A heavy proportion of short-term debt instruments may increase instability by exposing the borrower to refinancing difficulties. So there is normally a trade-off between low-cost financing, which calls for issues of short-term debt, and stable financing, which requires longer-term debt instruments. In effect, lengthening debt maturity is a way for a government to reduce uncertainty about future funding costs or funding difficulties. The additional cost of longer-term debt can therefore be thought of as an insurance premium: the price paid to insure against undesirable risks. How much insurance to purchase — how much to lengthen the maturity structure of the debt — is a complex question with no one right answer.

8.27 During the 1980s, Canada experienced large increases in government deficits and debt. The government financed them disproportionately through Treasury bills and short-term bonds. As a result, the proportion of floating-rate debt increased and the average term to maturity of the government's outstanding debt fell from six years in 1980 to four years by the end of the decade. In these circumstances,

the sharp increase in interest rates in the late 1980s caused debt service charges to jump considerably, undermining the government's fiscal plans. This sensitized the government to the risk of interest rate shocks, and brought about a policy of increasing over time the ratio of fixed-rate debt to floating-rate debt.

8.28 Since 1990, the government has had a policy of lengthening the maturity structure of the debt. In 1995, it announced a specific target for its debt structure, namely, to increase the proportion of fixed-rate debt from 55 percent to 65 percent over 10 years. In fact, the government reached that target in August 1997, much sooner than expected. In early 1998 it announced a slight increase in the target, to two thirds of gross debt. It reached that target in October 1998, and since then has narrowly maintained the proportion of fixed-rate debt at around that level.

In 1995, the government announced a target to increase the proportion of fixed-rate debt from 55 to 65 percent over 10 years. It reached that target in August 1997, much sooner than expected.

8.29 The improvement in the government's annual financial results and its effect on annual financial requirements since the mid-1990s was the main reason the government reached the fixed-rate target so much faster than it had planned. In 1995, the federal debt on the domestic currency market was projected to increase to $465 billion by the end of the 1997–98 fiscal year. In fact, the domestic debt at the end of that year was $440 billion. Issuing bonds as planned in these circumstances implied a significant reduction in short-term debt and a significant lengthening of the maturity of outstanding debt.

8.30 In deciding to move to this target so quickly, the government had to make a series of choices. Moving to the new target in two years entailed a significant reduction in Treasury bills. This increased borrowing costs because of the higher interest rates on debt issued with a longer term to maturity.

8.31 At the same time, increasing the proportion of fixed-rate debt would give the government greater protection against hikes in interest rates. In the wake of the Mexican financial crisis in late 1994 and the unity crisis here at home a year later, the government thought it prudent to take advantage of its improving finances and accelerate the pace toward its target of two-thirds fixed-rate debt. This meant that the government was able to benefit sooner from increased stability of interest costs and reduced risk of rollover. It also brought Canada closer to the OECD average.

8.32 But is two-thirds fixed-rate debt still the right target? The proper maturity balance is largely a subjective choice, depending on the risk preferences of the policy makers. Nevertheless, generally the larger the debt, the greater the impact of unanticipated increases in interest rates and the more the desirable fixed-rate debt then becomes. This was one reason for the government's decision in 1995 to move the proportion of fixed-rate debt from 55 percent to 65 percent. The debt today, while still high compared with other OECD countries, is lower than was anticipated in 1995 and is expected to continue falling for the foreseeable future. As the debt declines, so does the impact of any interest rate change on the cost of servicing the debt.

8.33 Rather than revising its 1995 decision, the government seems to be taking the view that the financial protection it had against risk in the mid-1990s was inadequate. That is, having to refinance (or roll over) $32 billion in debt each month was too risky. While a decline in the size of the debt would reduce the rollovers per month, the government believed that this windfall of an unexpected improvement in its finances offered it an opportunity to reduce this risk even faster.

8.34 Our concern is not the decision to reduce the rollover risk by increasing the proportion of fixed-rate debt, nor is it the quality of the background work that led to the decision. Rather, we are concerned

that the costs of this decision were not transparent. This is particularly important given the size of the debt: even a relatively small change in the maturity structure of the debt can have a significant financial impact. To illustrate, assuming a difference of 100 basis points (one percent) between long-term and short-term interest rates (roughly the average over the last 30 years), a five-percent shift from fixed-rate to floating-rate debt could be expected to generate an annual saving of around $250 million. A different spread would have a different impact.

8.35 The Department of Finance should review its debt structure target to determine whether, in light of changed fiscal and economic circumstances, that target still remains valid.

Department's response: *Each year, the Department reviews the federal debt structure, taking into account the fiscal and economic environment. In determining the target debt structure, a number of factors are taken into account, including the appropriate degree of protection against changes in interest rates, the desire to limit costs and refinancing needs, and the desire to maintain a well-functioning market for Government of Canada securities. An important benchmark of best practices is comparability with other major sovereign borrowers. In addition, more sophisticated analytical tools to aid in debt structure planning and monitoring are continually being developed.*

Prudent and effective debt management is required to ensure that debt service costs and the government's exposure to unexpected changes in interest rates and rollover risk are kept low. Greater cost stability has been achieved over the past several years by increasing the share of the government's interest-bearing debt issued at fixed rates from about 50 percent in 1992–93 to about two thirds currently. In the early 1990s, the impact of a 100-basis-point increase in interest rates was estimated to raise public debt charges by $1.8 billion in the first year. Today, the same increase in interest rates would increase debt charges by only $0.9 billion in the first year.

Canada's structural target and the actual debt structure are disclosed semi-annually in the Debt Management Strategy *and* Debt Management Report. *In addition, the monthly changes in the federal debt structure are publicly available.*

8.36 The Department of Finance should disclose publicly both the expected costs and the expected benefits of choosing a particular debt structure target. It should also disclose the assumptions used to calculate those costs and benefits.

Department's response: *The Department has been very transparent about all aspects of debt strategy and management in its annual debt management publications (*Debt Management Report *and* Debt Management Strategy*). These publications are now required by law to be tabled in Parliament on a timely basis.*

The Department agrees that increased public disclosure would be beneficial, and we are making progress in finding ways to present the information in a clear and meaningful manner that will be both of interest to and understandable by ordinary Canadians.

Indicators to guide domestic currency debt management

8.37 As already noted, the fundamental objective of debt management is to obtain "stable, low-cost funding." Stated in these terms, the objective is too general to guide debt operations. What is "stable" funding? How much variability or risk in debt service costs is the government prepared to accept for lower costs? How is this primary objective constrained by subsidiary goals of debt management,

Our concern is not that the government decided to reduce the rollover risk by increasing the proportion of fixed-rate debt, but that the costs of this decision were not transparent.

such as supporting liquid capital markets? What are the costs of plausible interest rate scenarios for a given set of portfolio strategies? How sensitive is a debt portfolio to changes in interest rates? How well are debt managers managing risks and moving toward the cost objectives?

8.38 In pursuing their debt strategies, governments increasingly use a variety of "indicators" to guide debt management operations and evaluate debt managers' performance. These include such indicators as:

- **Fixed-rate to floating-rate debt** — the proportion of gross debt that is maturing or being repriced in more than 12 months to the proportion being repriced in less than 12 months.

- **Average term to maturity (ATM)** — the average lapse time, usually in years, when debt is maturing or being repriced.

- **Duration** — a measure used to assess the interest sensitivity of bonds (the longer the duration, the greater the sensitivity).

- **Cost at Risk (CaR)** — a measure of the probable variability of debt charges the government could experience in the event of a change in interest rates in a given year.

For a more detailed discussion of these indicators, see Exhibit 8.3.

8.39 These indicators represent only some of the techniques available to assess the performance of debt managers and help guide them in managing a debt portfolio. The key is to not rely on any one piece of information but to establish a range of targets; even though the information they provide may overlap, they all contribute to managing the debt more efficiently. We also believe it is essential that both the targets and the extent to which they are met be reported regularly to Parliament.

We believe it is essential that the targets for debt management and the extent to which they are met be reported regularly to Parliament.

8.40 In our 1996 Report, we observed that the government needed to develop appropriate methods to assess whether it has achieved its debt management objectives. We wrote, "...it is essential that credible information be developed on a timely basis to show clearly whether debt management objectives are being met." Progress in this area appears to be limited. For example, the government now looks at a variety of information internally, but publicly reports its year-end results for two indicators, the fixed-rate debt ratio and the average term to maturity. But only for the former is the target transparent.

8.41 The Department of Finance should establish a range of targets for managing the debt portfolio that would serve as a basis for measuring performance. The Department should report these targets and its performance toward them in the spring *Debt Management Strategy* report and the fall *Debt Management Report*.

Department's response: *The Department has been expanding the range and sophistication of the performance indicators it uses for debt management, and is at the forefront of such research among comparable sovereign borrowers. Work is also ongoing to determine best ways of disclosing targets and reporting on performance, with the goal of enhancing current practices.*

Liquidity and the market for government securities

8.42 As already noted, maintaining a well-functioning domestic capital market is a core strategic objective of the government's debt management program. Creating deep and liquid markets for domestic securities is the government's basic strategy for achieving cost-effective borrowing.

8.43 Key features of this strategy include a calendar of regular bond issues to improve their transparency and certainty, and large benchmark issues to

Exhibit 8.3

Basic Indicators for Debt Management

Fixed/Floating Ratio: A target fixed/floating ratio is one of the measures most commonly used to guide a debt management operation. Canada's fixed-rate proportion of total debt went from 63 percent in 1994 to two thirds – close to the OECD average of 71 percent – in October 1998.

However, basing an operational target solely on the ratio of fixed to floating debt is too narrow an indicator of performance to guide debt management operations effectively. Since government bonds can vary in maturity from one to 30 years, the ratio of fixed-rate debt to total debt tells us very little about the maturity profile of the debt or the risks associated with it. Consequently, the average term to maturity of the portfolio also must be considered.

Average Term to Maturity: The average life span of the debt instruments a portfolio comprises.

The government reports its performance on ATM at around 6 years for 1998–99, up from 4 years in 1990. However it does not compare its ATM target with those of other countries. The OECD reports that for 1997, Canada's ATM at 5.8 was higher than those of the United States (5.2), Italy (4.7) and Belgium (4.4), and lower than the UK (9.7) and France (6.2).

Duration: Duration is a measure of the interest sensitivity of the portfolio. It is the weighted average term to maturity of a bond's cash flows, where the weights are the present value of each cash flow as a percentage of the bond's prices. It takes into account the current market value of future cash flows. Hence, the issuance of debt instruments at lower interest rates will translate into a longer duration. A portfolio with a longer duration is more sensitive to changes in interest rates. Two portfolios with identical maturities but different coupon payments will provide different cash flows and different sensitivities to interest rate changes. Alternatively, two portfolios with differing maturities but identical coupon payments will also provide different cash flows and different sensitivities to interest rate changes. Absent any other differences, the shorter the term to maturity and the higher the interest rates, the less sensitive a portfolio is to a one percent change in interest rates. Duration captures those differences, thereby more accurately measuring the exposure of a bond to interest rate risk. Duration takes into account opportunity gains and losses and thereby recognizes the implicit economic benefits/costs of debt management decisions.

Duration is commonly used in conjunction with a benchmark or hypothetical debt portfolio where a target duration is established that reflects the policy makers' preferred trade-off between risks and costs. A benchmark portfolio can be used both to guide debt market operations and to evaluate the performance of the debt management program. Countries such as Australia, Belgium, Denmark, Ireland, Finland and Sweden, to name a few, are using benchmark portfolios as one of many tools with variants of duration to guide them in managing their portfolios. Changes in the issuance program, buybacks, swaps and other techniques can be used to maintain the portfolio within acceptable bounds of duration target established for the benchmark. Performance can then be assessed by comparing with the benchmark the results achieved over a period.

Department of Finance officials have indicated that the government considers it a priority to develop such concepts. They are beginning to consider the kind of information that duration measures try to capture. To date, however, the Department has not established, based on the information duration captures, any benchmark portfolio that would serve as a guide for either managing the portfolio or judging the performance of the managers.

According to a recent report by the OECD, Canada in 1997 had a duration of 5.1, well above four of the five reporting countries (UK, the exception, came in at 6.5).

Cost at Risk (CaR): CaR is an indicator used to measure market risks. It is one technique within a set of highly sophisticated mathematical methods that assesses the variability of debt service charges (in the event of interest rate changes) within a given confidence interval over a certain time horizon. It can be interpreted as a probability that debt service charges will not exceed a given threshold in a given year. When assessing different debt portfolio hypotheses, the Department uses CaR to assess the risk/cost trade-off.

improve market liquidity. Exhibit 8.4 discusses the significance of liquidity. (For a more detailed discussion, see our 1996 Report, Chapter 21.) In addition, the government has supported the development of a domestic market in bond futures and a computerized screen-based information system on secondary market trades in government securities. By facilitating trade in government securities and improving its transparency, these initiatives help create a well-performing market for government debt. Because investors use government securities for hedging purposes and as benchmarks for pricing private debt, well-performing markets for government securities promote the overall efficiency of domestic financial markets as a whole.

The government has taken a number of measures to mitigate the impact of shrinking borrowing requirements on financial markets.

8.44 The borrowing environment for government debt has changed dramatically over the past few years with the elimination of the deficit and the consequent reduction in the government's financial requirements and debt. In 1994–95, its financial requirements were $26 billion (excluding foreign exchange transactions); since 1996–97 it has recorded a surplus each year, and expects to do so in each of the next several years as well. Ongoing financial surpluses mean continuous declines in market debt and, barring changes in the debt structure or significant repurchases of debt, a shrinking volume of securities to be issued. In this environment, an important challenge for debt managers is how to maintain liquid and efficient markets.

8.45 Volume is a key determinant of liquidity in financial markets. Other things being equal, the more securities there are outstanding in any particular market, the more will be traded and the more confidence investors will have that they can convert their asset into cash without losses. There can be exceptions, but generally volume and liquidity go hand in hand.

8.46 The government has taken a number of measures over the past few years to mitigate the impact of shrinking borrowing requirements on the liquidity or efficiency of financial markets. It has replaced the weekly Treasury bill auction with a two-week cycle, reduced the frequency of 30-year bond issues from four times a year to twice, eliminated the three-year benchmark issue, and initiated a pilot program of buying bonds back from the secondary market. The purpose of the buyback program is to repurchase bonds that are not being actively traded, before they mature. This is to help maintain the volume of bonds outstanding and thereby contribute to liquidity in the market for new issues. These initiatives have helped cushion the impact of declining debt issues on the depth and liquidity of the bond market.

8.47 Other debt management actions have had the opposite effect, however. In particular, the government's policy of increasing the fixed-rate portion of its debt has reduced the stock of instruments available in the Treasury bill market. The outstanding stock of Treasury bills fell from $166 billion in 1993–94 to $97 billion in 1998–99. This reduction in the supply of Treasury bills has had a significant effect on trading activity in the Treasury bill market. The quarterly turnover ratio (trading volume in a quarter to outstanding stock) fell from nearly 7 in 1995 to 3.6 in the second quarter of 1999, and spreads between the bid prices and

Exhibit 8.4

Liquidity and Its Significance for Borrowers

Liquidity refers to the ease with which a financial security can be traded without affecting its price. Since the ability to convert an asset into cash without loss is an attractive option, investors are prepared to accept lower interest rates for a liquid security than for one less liquid. This means that borrowers – the issuers of securities – can raise funds at a lower cost.

offer prices quoted by dealers widened. Along with outstanding volume of financial instruments, high turnover ratios and tight bid-offer spreads are key indicators of market liquidity. The effects we have described therefore indicate reduced liquidity in the Treasury bill market.

8.48 We believe that there is room for more aggressive use of buybacks to enhance liquidity in the markets for government securities. A recent Bank of Canada study noted that for the size of its market, Canada has a larger number of issues outstanding than the U.S. has, reflecting a more fragmented market for government securities. Consolidating this large number of relatively small issues into a smaller number of larger issues could improve the liquidity of government securities markets and lower the costs of borrowing. Given the size of the public debt, even a small decline in interest rate yields would translate into big savings. A reduction in yields by a mere basis point (0.01 percentage point) could reduce borrowing costs by some $50 million annually.

8.49 An enhanced buyback program would also provide an opportunity to change the maturity profile of the debt, should the government choose to do so.

8.50 In considering the benefits of expanding the buyback program, debt managers would need to compare the cost of buying back outstanding debt with the cost of issuing new debt. They would also need to assess the market's capacity to absorb the interventions of such a large player.

8.51 The Department of Finance should consider the potential benefits of more active buyback operations to adjust the maturity profile of government debt and support liquidity in government securities markets.

Department's response: *A prudent and appropriate debt structure is currently in place, and is being maintained at two thirds in fixed-rate debt instruments, as announced in the recently released* Debt Management Strategy. *This structure and overall debt strategy are reviewed annually to take into account the changing fiscal and economic environment, and Canada's relative position compared with its peers. Feedback obtained from participants in the market for Government of Canada securities is also incorporated.*

Regarding bond buybacks, the evaluation of the pilot phase has been completed and a program will be instituted on an ongoing basis. As supported by discussions with market participants, the buybacks have a positive effect on liquidity maintenance in the Government of Canada bond market, and may also be helpful for cash management purposes.

Management of Retail Debt

8.52 Retail debt includes non-marketable securities like Canada Savings Bonds (CSBs) and Canada Premium Bonds (CPBs), as well as marketable securities that are held by individual Canadians. Discussion of retail debt in this chapter refers to CSBs and CPBs, the instruments for which Canada Investment and Savings has direct responsibility.

8.53 In the early post-war decades, this retail sector was a major component of the market for government debt. As recently as the late 1970s, Canada Savings Bonds, the main retail debt instrument, accounted for about a third of the federal government's outstanding market debt. Since then, the share of retail debt has been falling steadily. Today, CSBs and CPBs account for roughly six percent of the government's outstanding market debt.

8.54 In 1995 the government established a special operating agency, since renamed Canada Investment and Savings (CI&S), to manage the retail debt program. Its purpose was to give Canadians a greater opportunity to invest

The reduction in the supply of Treasury bills has reduced liquidity in the Treasury bill market.

We believe there is room for more aggressive use of buybacks to enhance liquidity in the markets for government securities.

The total cost of managing the retail debt portfolio was $137.4 million in 1998–99. Payments to the Bank of Canada for administrative services account for around 48 percent of the retail program's total expenses.

The size of these payments has been a matter of debate between the Bank and Canada Investment and Savings (CI&S).

We believe there is a conflict between mandate of the CI&S and the overall objectives of the government's debt management program.

in Canada, thereby reducing the government's reliance on foreign lenders and stopping the downward trend in the retail share of total debt. The agency no longer emphasizes reduced reliance on foreign lenders, but stopping the decline in retail debt remains a key objective.

8.55 The agency has taken a number of initiatives to make retail debt more attractive and accessible to Canadians. It introduced a new product, the Canada Premium Bond, which offers a higher interest rate than the traditional Canada Savings Bond but is less cashable. On a pilot basis, the agency increased the length of the sales period from three weeks in the fall to six months. It also redesigned its Payroll Savings Program, making it more flexible for employees and easier for employers to administer.

8.56 These initiatives have helped somewhat to stem the erosion of the customer base for retail debt. Canada Savings Bonds outstanding (including Canada Premium Bonds) have totalled about $30 billion over the past five years; and the proportion of retail debt is projected to remain around its current level, just over six percent of total market debt. The agency also claims to have achieved significant efficiencies and savings through innovative marketing and distribution of retail debt.

The cost of administering the program

8.57 The total cost of managing the retail debt portfolio was $137.4 million in 1998–99, up from $126.6 million in 1997–98. This included direct expenses of CI&S, commission fees to sales agents and payments to the Bank of Canada. As fiscal agent for CI&S, the Bank provides operational and systems support for the retail debt program, including record keeping, interest calculation and payment for some five million CSB holders. Payments to the Bank for those services account for around 48 percent of the retail program's total expenses.

8.58 The size of these payments has been a matter of debate between the Bank and CI&S. The agency has contested the way the Bank allocates indirect and overhead costs to the retail debt program. This disagreement has been a major hurdle in efforts by the Bank and CI&S to arrive at a memorandum of understanding (MOU) that clearly states their respective roles, responsibilities and costs in managing the retail debt. An MOU was to have been ready by the fall of 1997 but was still not in place by the end of 1999.

8.59 To manage the retail program effectively, CI&S needs to have clear working arrangements with the Bank of Canada, the program's administrator. It also needs to know the costs of running the program.

8.60 Canada Investment and Savings, the Bank of Canada and the Department of Finance should conclude an agreement that clearly specifies the services the Bank is expected to provide and the method of determining the costs of those services.

Department's response: *All parties agree with this recommendation.*

Role of retail debt within overall debt management objectives

8.61 At a more fundamental level, we believe there is a conflict between the agency's mandate to reverse the downward trend in retail debt and the overall objectives of the government's debt management program — to raise stable, low-cost funding and maintain liquid financial markets.

8.62 Retail debt consists mostly of Canada Savings Bonds, redeemable on demand. A product that is cashable at any time the investor chooses exposes the borrower to unpredictable funding risks. This is difficult to reconcile with the objective of stability in funding costs. Whether retail debt helps diversify the government's debt portfolio and thereby lowers interest rate and rollover risks is

open to question, according to a study done for the agency. That study shows a high correlation between the cost of retail debt and the cost of all the government's wholesale debt instruments, such as Treasury bills and government bonds.

8.63 The promotion of retail debt appears to be timed particularly poorly today, when declining debt makes it difficult for the government to maintain adequate liquidity in financial markets. CSBs are non-marketable instruments. The more of them the government succeeds in selling, the lower will be the volume of Treasury bills and other marketable government bonds. This compounds the adverse effect of declining new issues on market liquidity.

8.64 Aggressive marketing of retail debt could perhaps be justified if it were a cost-effective means of government borrowing, but the evidence on this is mixed at best. Given the way retail debt is priced, cost effectiveness is not assured. To be cost-effective, yields on CSBs must be sufficiently below yields on equivalent wholesale debt (Treasury bills and marketable bonds) to take into account the higher administration costs of the retail debt program and the additional risk posed by the redemption option in CSBs.

8.65 At present, Canada Investment and Savings estimates the cost-effective yields of CSBs and CPBs by using wholesale debt as the benchmark. But to meet their quantity targets it prices them at, or close to, the yields on Guaranteed Investment Certificates (GICs) sold by private financial institutions. This means that CSBs will be cost-effective only when the interest rates on GICs are sufficiently below the rates on government wholesale debt. This will not be the case if the gap between GICs and wholesale debt narrows. To ensure that retail debt is cost-effective, retail debt issues would have to be priced and sold strictly with reference to the government's wholesale debt — not to private sector alternatives, such as the GICs. However, were the government to operate on that basis, it could not simultaneously pursue quantity targets for retail debt. It would have to be satisfied with whatever quantity of retail debt could be issued at that price.

8.66 When CSBs were first introduced over 50 years ago, they met a clear need for a safe, liquid investment, accessible to ordinary Canadian households. Given the widespread introduction of other savings outlets in recent years, however, that need is less clear today. To the extent that the government considers it still desirable to offer a risk-free investment to retail investors, we question why it needs to do so by marketing CSBs aggressively in competition with private financial institutions. Having the option available would satisfy the purpose.

8.67 To ensure that retail debt is cost-effective, it would have to be priced against wholesale issues of government debt. Alternatively, if the government wanted Canadian households to have a particular stock of retail debt, it ought to be prepared to report the associated costs.

8.68 We understand that the Department of Finance is currently undertaking a review of various aspects of the retail debt program.

8.69 The Department of Finance should clarify the role of the retail debt program in the context of the overall objectives for the management of the public debt. If retail debt is to be cost-effective, it should be priced strictly with reference to the government's comparable wholesale debt, without reference to the rates offered by private sector alternatives. If the Department chooses to set a quantity target for retail debt, it should report the costs of meeting that target.

Department's response: *The retail debt program contributes to a diversified investor base and the investment needs of Canadians. Given recent changes in the financial requirements, and the changing*

To ensure that retail debt is cost-effective, retail debt would have to be priced and sold strictly with reference to the government's wholesale debt — not to private sector alternatives, such as Guaranteed Investment Certificates.

competitive marketplace, further work needs to be done on how the government should proceed in maintaining a cost-effective and competitive retail debt program that provides Canadians with access to Government of Canada securities.

Management of Foreign Currency Debt

8.70 As we have noted, all funding required for government operations at the federal level is raised on domestic markets, in Canadian dollars. The government borrows in foreign currencies only to fund Canada's foreign exchange reserves. These are used to support stability in Canada's exchange rate and to bolster the government's overall general liquidity.

8.71 Canada's foreign exchange reserves rose sharply in the late 1980s, when the Canadian dollar was under significant upward pressure and the government intervened to moderate volatility in the exchange rate. In the early 1990s they were allowed to decline substantially, as the Canadian dollar came under downward pressure. In 1996, the government announced plans to increase Canada's foreign reserves to take into account the increased flows in foreign exchange markets and to bring them more into line with comparable countries. Consistent with these intentions, foreign reserves have more than doubled in recent years — from US$12 billion at the end of 1995–96 to US$25 billion at the end of 1998–99 (and to US$28.6 billion at the end of calendar year 1999).

8.72 Foreign currency liabilities (used to fund these reserves) increased from US$14.2 billion to US$33.8 billion over the same period (Exhibit 8.5 shows the structure of these foreign currency liabilities). See Exhibit 8.6 for an explanation of foreign currency reserves and liabilities and a key cost of holding such reserves. The difference between reserves and liabilities reflects the impact of foreign exchange intervention. In the wake of the East Asian financial crisis in 1997 and the ruble crisis in 1998, the Canadian dollar came under substantial downward pressure. Significant amounts of Canada's foreign currency reserves were used at the time to shore up the foreign exchange value of the Canadian dollar. These reserves will be repurchased with domestic currency over time as market conditions permit, thereby bringing foreign assets and liabilities back into balance.

8.73 In recent years, foreign currency reserves were held almost exclusively in US dollars, and foreign currency borrowing was essentially confined to US dollars as well. Exchange Fund Account guidelines adopted last year indicate that the government is now prepared to hold a proportion of its reserves in other currencies, primarily Euro but also yen. As a result, borrowing in these other currencies is likely to become more important in Canada's foreign debt portfolio.

8.74 Key operational objectives in foreign debt management are to minimize

Exhibit 8.5

Foreign Currency Liabilities at 31 March 1999 (US$ billions)

Canada Bills	6.7
Canada Notes	0.8
Euro Medium-Term Notes	3.3
Foreign currency bonds	13.0
Total foreign currency debt	23.8
Cross-currency swaps	10.0
Total foreign currency liabilities	**33.8**

Source: Department of Finance, *Debt Management Report*, 1998–99

Exhibit 8.6

Foreign Currency Liabilities and Assets

Foreign currency liabilities report government borrowing in non-Canadian currencies while foreign currency reserves report the investment of these funds in high-quality, non-Canadian assets. The difference between the cost of borrowing and the return on investment is about 10 to 20 basis points.

the cost of carrying reserves and to manage the associated risks prudently.

8.75 Risks associated with foreign borrowing are managed through a variety of strategies. To minimize exchange rate and interest rate exposures, reserves are managed to ensure as far as possible that the assets match the liabilities in currency and maturity. As with domestic debt, rollover risk is reduced by issuing debt over a wide spectrum of the yield curve to a broad investor base, and by limiting the proportion of short-term debt.

8.76 To minimize the cost of carrying the debt, debt managers monitor markets closely and act on borrowing and investment opportunities where and when they arise. In doing so, the government times and tailors issues to suit investors' preferences, subject to funding needs and taking into account the desire to maintain Canada's standing in the market as a successful borrower. The instruments used vary widely (see Exhibit 8.7). Bills and bonds in US dollars have traditionally been the basic funding sources, and they are still major sources today. More recently, however, cross-currency swaps and Euro Medium-Term Notes (EMTN) play an increasingly important role.

8.77 Swaps are agreements between counterparties to exchange obligations over a specific period. In a cross-currency swap, the government exchanges debt in Canadian currency and interest payments on that debt for foreign-currency debt and interest payments. A swap is often a less costly means of raising foreign funds than direct borrowing, given the comparative advantage the government enjoys in domestic capital markets. Cross-currency swaps outstanding have grown over the past three years, from US$1 billion at the end of 1995–96 to US$10 billion in 1998–99.

8.78 The EMTN program was introduced in March 1997. EMTNs are issued in a variety of currencies to meet investors' preferences. If they are issued in other than US dollars they are then normally swapped into US dollars, the primary currency in Canada's foreign exchange reserves. The program makes possible low-cost borrowing through opportunistic issues in non-core currencies (currencies other than the US dollar, Euro or yen). At the end of the 1998–99 fiscal year, Canada's liabilities under the EMTN program stood at US$3.3 billion.

8.79 The cost of swapped debt and EMTN debt has been considerably lower than the cost of global bonds with similar

Exhibit 8.7

Debt Instruments Used for Foreign Currency Borrowing

Instrument	Description	Public/Private
Canada Bills	Short-term notes (less than 9 months) issued in US dollars in the United States	Public offering
Canada Notes	Longer-term notes (at least 9 months) issued in US dollars in the United States	Public offering
Euro Medium-Term Notes (EMTNs)	Medium-term notes, issued outside the United States and Canada in a variety of currencies and less than $1 billion.	Public offering or private placement
Global and other bonds and notes	Generally larger issues in a variety of currencies that are not classified in any of the above groups	Public offering
Currency swaps	Swaps are used to convert debt issued in a non-US currency and needed in US dollars.	Private placement

maturity and, on average, even below the cost of Canada Bills (notes issued in the U.S. in US dollars), which are issued with a maximum term to maturity of only nine months. The use of cross-currency swaps and EMTNs has therefore been a cost-effective means of diversifying and lengthening the maturity of Canada's foreign currency debt.

8.80 Like domestic borrowing, foreign currency borrowing follows a plan that is established annually, before the beginning of the fiscal year, and approved by the Minister of Finance. The plan sets funding targets and risk management objectives, and identifies strategies for achieving them. The discussion accompanying these plans is thorough and the analysis behind them sophisticated and of high quality. However, from documents that we have seen, expectations for these objectives are not sufficiently quantified and the process lacks specific criteria for measuring performance.

The Department of Finance and the Bank of Canada have started to develop a more explicit portfolio management framework for foreign currency assets and liabilities. Making the framework public would improve transparency and strengthen accountability for the foreign debt management program.

8.81 We have been advised that the Department of Finance and the Bank of Canada have started to develop a more explicit portfolio management framework for foreign currency reserve assets and liabilities. This framework would take into account the targets for reserves and their composition, as well as the objectives for foreign debt (cost, diversification, maturity, for example). We view this as a move very much in the right direction and consistent with best practices in other jurisdictions. We also believe that once developed, the framework should be made public, with the possible exception of commercially sensitive information. Such disclosure is necessary if the framework is to serve not only as an internal management tool but also as a means for Parliament and the public to hold debt managers to account. Making the framework public would improve transparency and strengthen accountability for the foreign debt management program.

8.82 The Department of Finance should proceed with the development of a portfolio management framework for foreign currency assets and liabilities, and, once developed, the framework should be publicly disclosed.

Department's response: *The Department's activities in foreign currency asset and liability management are already governed by a rigorous framework. The Department continues to develop enhancements and follows emerging best practices, and will strive to increase the transparency of foreign currency operations. Currently, a great deal of detail on the government's foreign currency operations is provided annually in the Exchange Fund Account Annual Report, which includes financial statements audited by the Office of the Auditor General of Canada. Full public disclosure of all aspects of operations may not be possible, due to the commercially sensitive nature and possible market impact of some of the information.*

Risk Management and Corporate Governance

A changing environment

8.83 With the surge in the stock of debt and in the debt-to-GDP ratio in the late 1980s and early 1990s, governments became painfully aware of the financial cost of borrowing money. They realized the importance of techniques that were being developed to minimize costs and risks. More recently, with the globalization of markets and the expanding array of financial instruments and techniques for managing portfolios, a new dimension has been added to the complexity of debt management. Today, many governments have begun to develop risk management capabilities and many have reorganized their debt management structures.

8.84 Risk management. Risk is composed of two elements — the likelihood that an event will occur, and the

consequences if it does. A debt manager faces risks that the market itself generates — interest rate and exchange rate risk — and risks from outside the market, particularly operational risk, counterparty risk and rollover risk.

8.85 To manage risk, debt managers want to make choices that either minimize costs given the risks, or minimize risks given the costs. Their goal is to construct a debt portfolio that best reflects those choices. Where their objective is to maintain deep and liquid domestic markets, debt managers try to devise a strategy that best meets that objective without aggravating rollover risk. Where government borrowing in the domestic market plays a less prominent role (where borrowing is predominantly in foreign markets), debt managers can take a more opportunistic approach to borrowing cost-effectively. Canada does both. In the domestic markets it takes a strategic approach and tries to construct a portfolio that meets its liquidity and cost objectives while protecting against rollover risk. In the foreign currency markets, without the constraint of maintaining liquidity it can be more aggressive.

8.86 In 1997, the Bank of Canada established a Risk Management Unit (RMU) to monitor all risks in the foreign currency reserve portfolio. This includes counterparty risk (the risk that the recipient of the investment will not pay in full at maturity) and currency risk (the risk associated with a fluctuating dollar). The RMU is also responsible for monitoring credit and market risks for other government business (gold transactions and government deposits, for instance, not just foreign currency risks). The Risk Management Committee (RMC) oversees the work of the RMU and is made up of senior officials from the Department of Finance and the Bank of Canada.

8.87 The RMU measures and monitors risk using sophisticated computerized models. The technical expertise for managing this activity resides with four highly specialized professionals, whose skills are in demand in the financial industry. In fact, the unit's turnover in the last year was 100 percent. Three of the specialists left for private industry.

8.88 The RMU's task is not only to measure and monitor risks but also to report each quarter to the RMC. Its reports are improving in clarity but are highly technical and very complex. Because of the newness of the operation and the complexity of the work, the RMC devotes considerable effort to building up its knowledge base so it can monitor and supervise this risk management activity effectively.

8.89 We believe that the key to this effort is continuity in the staff of the unit. It is important that the Bank and the government be able to attract and keep skilled and qualified people to run the RMU, and provide oversight through the RMC as well.

8.90 We commented earlier in the chapter on the need for the government to develop a set of performance targets for its entire portfolio of domestic market debt. We also indicated that in the face of a falling debt stock and a declining debt-to-GDP ratio, there will be a need to consider playing a more active role in maintaining a portfolio that meets the program's objectives for cost, stability and liquid markets. Currently, the Department evaluates the risks associated with domestic currency debt using similar techniques as those it uses for foreign currency debt.

8.91 These domestic risks are not defined explicitly as the responsibility of the RMU or RMC. They are under the direct responsibility of the Department, with input from the Bank of Canada. Yet apart from maintaining deep and liquid markets, the objectives of domestic debt management are similar to those of foreign currency debt management, and the risks are alike in both kinds of borrowing. We believe that the risk

It is important that the Bank of Canada and the government be able to attract and keep skilled and qualified people to run the Risk Management Unit.

We believe that the risk management approach followed in managing foreign currency debt could be applied to domestic debt management as well.

management approach followed in managing foreign currency debt would appropriately be applied to domestic debt management as well.

8.92 The Department of Finance should work with the Bank of Canada to expand the role of the Risk Management Unit and Risk Management Committee beyond their current responsibilities for foreign currency debt. This should include monitoring, reporting, and generally advising on risk management issues for the domestic currency debt portfolio.

Department's response: *The Department emphasizes that, although not under the umbrella of the Risk Management Committee (RMC), the risks associated with the domestic liability portfolio are carefully and rigorously reviewed and monitored on an ongoing basis. The Department agrees that a review of the possible role for the RMC within domestic debt management could be useful, and has already taken steps to start the review.*

The process of obtaining complete and independent advice is flawed to the extent that the advice seems to focus not on overall strategies but on the technical day-to-day concerns.

Governing Canada's debt management

8.93 In Canada, the model for developing debt management strategies has been followed for 10 to 15 years. During that time, Canada's debt grew dramatically while its ability to repay worsened, making managers and policy makers acutely aware of the trade-off between short-term borrowing to minimize the cost of servicing that debt and the increased risk this strategy entailed. While Canada's fiscal prospects have improved considerably since then, choosing an appropriate strategy has certainly not become any easier. If debt continues to decline, keeping the market liquid will represent a new challenge. Also, managers are facing markets that are considerably more complex and global than even five years ago. At the same time, techniques for assessing risk and strategies for managing them have improved.

8.94 Canada is not unique in the choices it faces; debt managers throughout the G-7 are grappling with similar issues as they try to keep borrowing costs and risks to a minimum. Many countries have developed, to varying degrees, a risk management capacity to manage the strategies they use; Canada is one of them.

8.95 Some countries have reorganized their debt management operations by establishing separate agencies. Examples are Austria, Australia, Belgium, Ireland, New Zealand, Portugal and Sweden. As an IMF working paper notes,

> ...an efficient, transparent and accountable debt management policy necessitates an organization structure independent of political influence, with clearly defined objectives and performance criteria, and run ... according to sound risk management principles.

8.96 Other countries, like the U.S. and France, do not have separate agencies but recognize the need for high-level, independent advice on debt market operations. France recently announced the creation of two committees that, together with the primary dealers, will be in a position to provide complete and independent advice to the government on the main features of its debt strategy:

- a Market Committee, chaired by the Permanent Head of the Treasury, will include among its members' top bond executives from French and foreign primary dealers to advise on operational issues.

- a Strategic Committee, made up of recognized people with varied backgrounds (banking and financial professionals, investors, economists, academics), will advise on the key principles of the debt issuing policy.

8.97 Canada's debt managers, too, need complete and independent advice in designing strategies to manage the debt. But the process of obtaining this advice is

flawed to the extent that the advice seems to focus not on overall strategies but on the technical day-to-day concerns like the frequency of auctions. While such concerns are important, addressing them is not enough. Delivering the most efficient and effective program under a given strategy is valid and should be encouraged, but it still begs the question as to whether the strategy is appropriate.

8.98 Developing a strategy means developing a portfolio structure that is consistent with the government's willingness to accept risk and its need to minimize and stabilize costs and maintain liquidity in the market. It would also mean obtaining advice on the choice of indicators and appropriate targets for them. For example, is the current target for fixed-rate debt appropriate, given current financial conditions and existing market and political risks?

8.99 The Department of Finance should undertake a high-level strategic review of its governance of debt management and consider alternative ways to obtain the independent and complete advice needed by debt managers today.

8.100 That review should include reviewing the relationships among the Bank of Canada, Canada Investment and Savings and the Department and assessing whether they continue to meet the needs of effective debt management.

Department's response: *The Department believes that the existing Canadian debt management governance framework functions very well. However, given changing borrowing environments worldwide, coupled with technological advances, we will continue to monitor and keep abreast of best practices in this area. We will review the governance frameworks of comparable sovereign borrowers and determine if there are best practices that are relevant for Canada.*

Conclusion

8.101 The purpose of this chapter was to assess the degree to which the Department of Finance measures the effectiveness of its debt management activity and to assess its overall governance.

8.102 We found that this is a well-run program overall. The people who manage it are a highly committed group who are devoted to delivering an effective program. They are aware of the changing tools available to them and the changing economic and fiscal environment that affects debt management.

8.103 Like debt managers in many other countries, the Department of Finance and the Bank of Canada have in place or are developing the sophisticated modelling techniques needed to manage effectively Canada's $460 billion in market debt. This means being able to offer policy makers the information needed to choose the most appropriate debt strategies given existing constraints, and to monitor and deliver the program against appropriate performance standards. We noted particularly that despite Canada's improving economic and fiscal performance, the government's strategy is to move the debt portfolio in a direction that is more risk-averse than it was in 1997. Driving this risk-averse strategy are the concerns that although the economy is improving, the debt stock remains large; the debt-to-GDP ratio, while declining, remains high; national unity concerns remain; and the rating agencies whose role it is to keep investors informed have not upgraded Canada's rating.

Despite Canada's improving economic and fiscal performance, the government's strategy is to move the debt portfolio in a direction that is more risk-averse than it was in 1997.

8.104 The government has continued to raise a higher proportion of its debt in instruments with longer terms to maturity, and at an accelerated pace, despite the swing from deficits to surpluses sooner than anticipated. This decision is clearly outside the scope of our audit, but it is within our responsibility to comment on

the lack of transparency about the costs of that decision. While the benefits have been reported, the expected costs have not. We encourage the government to be transparent about not only the benefits of its decisions but also the costs.

8.105 To the extent that the government has performance indicators with targets, it does measure and report its performance against them. But its range of targets is too narrow. We suggest that the government expand its range of indicators or performance measures to guide its management of the debt, and monitor its performance against them. For accountability, we encourage the government to be transparent about them as well.

8.106 We also believe that performance measures such as the kinds discussed in this chapter are applicable in both the domestic currency market and foreign currency markets. We recognize, however, that while the overall objective of raising funds in both markets is to obtain stable, low-cost funding, in the domestic market the government also has a responsibility to help keep the markets liquid.

8.107 The government also raises money in the domestic retail debt market from individual Canadians, through Canada Savings Bonds and Canada Premium Bonds. We understand that the government hopes to keep retail debt at a constant share of overall debt and that this market has the same objective of stable, low-cost financing. However, notwithstanding the renewed attention given to retail debt and the creation of a special operating agency to market it aggressively, we have seen no conclusive evidence that the program does raise cost-effective debt. We are concerned that the objective of cost effectiveness may conflict with the objective of maintaining the targeted share of retail debt in the total debt stock. We also understand that the government is undertaking to review various aspects of the retail debt program. We encourage it to include in this review an assessment of the consistency between cost effectiveness and a quantity target. We also encourage the government to disclose this information publicly when it completes its review.

8.108 We believe that risks in the entire market debt portfolio should be managed in a similar way, through the kind of process currently used for the foreign currency component of the debt. This should not be interpreted as a negative comment on risk management for domestic debt, but rather as encouragement for the Department to take advantage of a process that seeks the broadest independent advice on managing those risks.

8.109 We were concerned about the Department's ability to obtain complete and independent advice to guide the design of its debt management strategies. We believe that the process for seeking this advice is flawed because those who provide the advice are not sufficiently independent of the process. There are examples of alternatives among other countries, and we encourage the government to look at them.

8.110 Finally, we recognize that Canada has a large debt, and the management of it needs to be transparent to the markets. Changing direction will take time and good planning. That is the essence of the approach we are proposing.



About the Audit

Objectives

Management of the federal market debt is the responsibility of the Department of Finance, working in conjunction with the Bank of Canada and Canada Investment and Savings. Three years ago, we published a study meant to inform members of Parliament and others about how the federal government raises and manages its market debt. The present audit looked more closely at certain key features of the debt management program. More specifically, the objectives of the audit were to:

- assess the adequacy of the governance/control approach to managing risk in light of the changing way debt management is conducted; and
- determine whether the Department systematically reviews the performance of its debt management practices against the objectives set for the program.

Scope

As with our earlier study, the focus of the audit was the part of federal debt raised directly by the government in financial markets. Thus, it did not include liabilities to public service pension plans, liabilities of Crown corporations and other contingent liabilities.

Approach

We built on the knowledge base established during our study of the debt management program. We reviewed academic literature on debt management, studied debt management practices in other jurisdictions, both in Canada and other countries, and consulted experts on financial markets and debt management. We examined project files and reviewed departmental analyses and Department-commissioned studies on debt management issues. We also interviewed officials with the debt management program of the Department of Finance, the Financial Markets Department of the Bank of Canada and with Canada Investment and Savings, the agency established in 1997 to manage Canada's retail debt.

Criteria

To assess the program's governance framework and performance measurement practices, we looked for evidence that senior management establishes clear objectives and performance expectations, identifies the significant risks associated with the program, ensures that capabilities appropriate to the mission and objectives of the program are in place, monitors operations, evaluates results and reports on performance.

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Report of the Auditor General of Canada to the House of Commons

Chapter 9
Streamlining the Human Resource Management Regime: A Study of Changing Roles and Responsibilities

April 2000

Report of the

Auditor General of Canada

to the House of Commons

Chapter 9

Streamlining the Human Resource Management Regime: A Study of Changing Roles and Responsibilities

April 2000

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Chapter 9

Streamlining the Human Resource Management Regime

A Study of Changing Roles and Responsibilities

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Streamlining the Human Resource Management Regime

A Study of Changing Roles and Responsibilities

Main Points

9.1 We undertook this study to draw to Parliament's attention the urgent need to deal with long-standing issues and emerging challenges for human resource management in the public service.

9.2 The current framework governing human resource management in the "core" public service is unduly complex and outdated. Administrative systems are cumbersome, costly and outmoded. The framework is ill suited to an environment that demands flexibility and adaptability — an environment that faces significant challenges in human resource management and an increasingly competitive labour market.

9.3 Public service staffing is a major source of frustration both to managers and to employees. The system is rule-bound and inefficient. Managers need to have more authority in staffing, but they also must be more clearly accountable for their decisions. The interests of employees must be respected, but there is a pressing need to modernize and streamline the processes for staffing and related recourse.

9.4 Concerns about "fractured responsibility" for human resource management are long-standing. Responsibility and accountability for the changes needed to simplify, streamline and strengthen the current human resource management regime need to be clearly assigned and appropriately supported. This is particularly important in areas of divided responsibility.

- In human resource management, deputy ministers — leaders of the major organizations of government — have been seen as primarily responsible for administering a centrally prescribed framework. A significant step in their role is needed. Deputies should have pivotal responsibility for developing and maintaining a healthy work environment in their departments, and their responsibilities for human resource management need to be set out formally. Deputy ministers should be clearly accountable for the way their departments perform these responsibilities.
- The Public Service Commission needs to engage in an active dialogue with Parliament about changes in its activities and in the way it carries out its responsibilities for merit protection. This dialogue should encompass legislative reform of staffing. The Commission also needs to improve its reporting on departmental performance in adhering to the provisions and principles of the *Public Service Employment Act*.
- There is a need for the Treasury Board to strengthen its reporting to Parliament on the aspects of human resource management for which it is responsible. As well, there is a need to clarify the responsibility of deputies for reporting on the quality and effectiveness of human resource management in their departments.

Background and other observations

9.5 The core public service is now substantially smaller than at any time since the early 1970s. It has diminished by almost 100,000 employees in the last 10 years, to about 143,000 employees by the end of 1999. Government downsizing, devolution, privatization, limited recruitment and other measures were factors in this reduction. More than 50,000 public servants have moved from the "core" public service (for which Treasury Board acts as the employer) to "separate employers" like the Canada Customs and Revenue Agency.

9.6 Knowledge workers now constitute 55 percent of public servants (up from about 33 percent 15 years ago). They are bringing new expectations to the workplace, heightening the need for change.

9.7 The percentage of public service employees aged 45 to 54 has almost doubled over the last 14 years, and 70 percent of executives could retire within 10 years. This is generating concern about a potential leadership crisis. Moreover, youth are underrepresented: the percentage of public servants under 35 years of age is roughly half that in the Canadian work force.

9.8 In 1996, the Treasury Board Secretariat estimated that there were 840 separate pay rates and 70,000 rules governing pay and benefits. In 1997, there were more than 12,000 pages of instructions in the Treasury Board's personnel and pay administration manuals. It takes 119 calendar days on average to complete a closed competition in the core public service, not including added time to deal with any appeals. This is about twice as long as reported by selected quasi-public organizations. For a new position that needs to be classified, staffing takes 230 calendar days on average — almost eight months.

In its corporate response, the government agrees on the need for a strong human resource management framework and on the importance of the health of the public service. It is more optimistic than the Auditor General on some matters, and notes recent initiatives to address some issues. In a supplementary response, the Public Service Commission indicated its continuing efforts to improve staffing systems and to engage in a dialogue with Parliament.

Introduction

9.9 The women and men in the Canadian public service provide essential services to their fellow Canadians. These range from delivering benefits and approving new drugs to providing information that people rely on to make their personal and business decisions. Public servants also advise ministers of the day on issues and policy options in this wide range of matters. Canadians expect their public servants to be non-partisan, and to provide services honestly, fairly, impartially and cost-effectively.

9.10 Canada is widely regarded as among the finest countries in the world to live and work in. Our federal public service is viewed in the same positive light by those who recognize its vital role in developing and providing the programs and services that are integral to our way of life. But people management in the public service faces major challenges, and significant concerns about the adequacy and responsiveness of the human resource management regime.

9.11 The organizational well-being of the public service and, in turn, its capacity to deliver results depends on its ability to attract, develop and retain qualified people. Key to doing this well is an effective human resource management regime. This is particularly important at a time of major pressures within the public service, changing labour markets, and increasing demands on public servants.

9.12 The public service seeks to recruit highly competent people with the necessary skills and qualities through a system of staffing that is non-partisan and based on merit. These principles have led to the creation of a professional career public service. They underlie the legislative and institutional framework that Parliament created to govern human resource management.

9.13 Managers are not free to manage people any way they like. Whether in the private or the public sector, managers must operate within a framework of rules and comply with the policies, directives and guidelines of their organization. Most organizations set up human resource systems that, properly designed, help managers manage their people.

9.14 Public servants are managed under a basic framework that dates back to 1967, when legislation set out the roles and responsibilities of government organizations involved in "personnel management." Many studies over the past 30 years found that fundamental change was highly desirable, even essential, and recommended significant changes to the framework. Contemporary reviews have reached the same conclusions. Yet change has been limited to what has evolved within the confines of the framework, which itself remains essentially unchanged.

People management in the public service faces major challenges.

9.15 The expectations of today's public service managers call for human resource management that is flexible, responsive and timely. It is time to address the issues that have long stood in the way of significantly improving how the public service is managed.

9.16 Through the legislation Parliament passes, it directs how the public service should be managed. Its scrutiny of the government's budgets and accountability reports and its examination of public service issues play a vital role in ensuring the ongoing competence and capacity of the public service.

The basic legislative framework

9.17 The basic framework for managing people in the 20 departments and some 60 agencies that form the "core" public service comprises three pieces of legislation enacted in 1967: the *Public Service Staff Relations Act,* the *Financial Administration Act,* and the *Public Service Employment Act.* A fourth Act, the *Public Service Superannuation Act,* provides for

pensions for the public service of Canada. The legislative framework is designed to uphold basic public service values and to provide for the protection and monitoring of merit (see Exhibit 9.1).

9.18 The *Public Service Staff Relations Act* introduced collective bargaining, to which about 85 percent of employees are now subject. In general, the design of the collective bargaining regime adheres to principles and processes established in law to govern relations between other employers and their employees. An important exception in the public service is the exclusion of job classification and staffing from collective bargaining.

The legislative framework is designed to uphold basic public service values.

9.19 Since 1967, several pieces of legislation have been added to the governing framework. Notable among these are the *Official Languages Act*, the *Canadian Human Rights Act*, the *Canadian Charter of Rights and Freedoms*, the *Access to Information Act*, the *Privacy Act*, and the *Employment Equity Act*.

The main management players

9.20 Today, key roles in the management of human resources in the core public service are played by Treasury Board, the Privy Council Office, the Public Service Commission and line departments. Federal public sector entities outside the "core" have greater autonomy in managing their people.

9.21 **Treasury Board.** Under the *Public Service Staff Relations Act*, the Board acts on behalf of the government as the "employer" for the core public service. The Treasury Board is a Cabinet committee with a number of statutory authorities in the areas of expenditure and financial management, service and innovation, information technology and human resource management. In this domain, Treasury Board ministers are concerned with maintaining a strong, competent and representative work force. Through the Treasury Board Secretariat, the Board consults and negotiates with the public service unions. The Treasury Board also has general responsibility under the *Financial Administration Act* for administrative policy and for financial and personnel management (except appointments, the domain of the Public Service Commission). Treasury Board, with the support of the Secretariat, sets out policies on such matters as job evaluation, compensation, terms and conditions of employment, training and development, labour relations, work force adjustment, pension programs, employee benefits and insurance, employment equity and official languages.

9.22 **The Privy Council Office (PCO).** Headed by the Clerk of the Privy Council and Secretary to the Cabinet, the PCO is responsible for ensuring the satisfactory performance of the public service in support of the Prime Minister and Cabinet. This includes strategic management of senior people. The PCO provides advice and support in the selection of deputy ministers and other Governor-in-Council appointees, and in the related processes for performance review, compensation and termination. For deputy ministers, it also provides advice and support for career planning. The Clerk became the statutory Head of the Public Service in 1993, and plays a prominent role of leadership to deputy

Exhibit 9.1

Public Service Values

Source: Task Force on Public Service Values and Ethics (The Tait Report)

"A public organization does not and cannot enjoy the 'flexibilities' of private sector organizations. It will always have to meet higher standards of transparency and due process in order to allay any fears of favouritism, whether internal or external, in performing its duties under its position of trust and in its use of public funds. For this reason, continuing measures for the protection and monitoring of the principles of merit will be needed, if public confidence in public institutions is to be maintained."

ministers and public servants generally, by establishing strategic direction and management priorities for the public service.

9.23 The Public Service Commission (PSC). Under the *Public Service Employment Act*, the Commission is an independent parliamentary agent with exclusive statutory authority to appoint or provide for the appointment of "qualified persons" to and within the public service. It ensures that appointments are based on merit "as determined by the Commission." The Commission is also responsible for conducting investigations and audits of matters under its jurisdiction and for administering the staffing recourse mechanisms provided under the Act. It operates staff training and development programs, and assists deputy heads in operating such programs. It also has responsibilities for employment equity, and handles matters assigned to it by the Treasury Board or by the Governor in Council.

9.24 Departments. Ministers are assigned broad powers over the organization and allocation of resources in their departments. Deputy ministers have responsibility and authority to manage the department in support of their ministers. Beyond this, deputy ministers have little statutory authority in human resource management. Instead, their authority is derived primarily from delegation instruments under which the Treasury Board and Public Service Commission delegate powers to them.

The many other players

9.25 There are many other management players. The Canadian Centre for Management Development is responsible for developing a strong management cadre. The Leadership Network is responsible for supporting network development and promoting public service renewal, and for central management of the assistant deputy minister community. This reflects the notion that its members represent a vital corporate resource.

9.26 Various management committees also play an important role. Most prominent are two standing committees of deputy ministers:

- the Committee of Senior Officials (COSO), which advises the Clerk on senior appointments and other human resource management priorities and issues; and
- the Treasury Board Secretariat Advisory Committee (TBSAC), which advises the Secretary of the Treasury Board on all administrative matters to be brought before the Board, including those related to "personnel management."

9.27 Other bodies play a role in the co-ordination, debate or review of human resource management issues, or perform administrative functions (see Appendix A). These include various standing or ad hoc bodies, and oversight institutions — the Office of the Commissioner of Official Languages, the offices of the Information Commissioner and the Privacy Commissioner, the Canadian Human Rights Commission and the Public Service Staff Relations Board, which administers the *Public Service Staff Relations Act*. They also include the 16 unions and various forums for consultation among employer, employees and bargaining agents, such as the National Joint Council and the Public Service Commission Advisory Council.

Deputy ministers have little statutory authority in human resource management. Their authority is derived from delegation.

Focus of the study

9.28 We undertook this study to draw to Parliament's attention the urgent need to deal with long-standing issues and emerging challenges for human resource management in the "core" public service (the organizations for which Treasury Board acts as the "employer"). Some of these issues may require parliamentary intervention to modernize legislation. Others are important for Parliament to

monitor to ensure that needed changes are made, given their crucial importance to the well-being of the public service and, in turn, to Canadians.

9.29 The objective of the study was to identify problems with roles and responsibilities and related accountabilities for human resource management. We wanted to identify areas where changes are needed to enhance the capacity of the public service to serve in a rapidly changing environment, now and in the future.

9.30 Further details are presented at the end of the chapter in the section **About the Study**.

The public service has been the subject of extensive review and analysis.

Observations

A History of Concerns About the Human Resource Management Regime

9.31 Over the years, the human resource management regime in the public service has been the subject of extensive review and analysis.

9.32 The 1962 Royal Commission on Government Organization (the Glassco Commission). One element of the Glassco Commission's mandate was to determine how changes in the relationships among the Treasury Board, other central agencies and line departments and agencies could help to improve efficiency, economy and service to the public. The Commission found that substantial changes in the framework were required. Its recommendations contributed to the design of the legislative framework established in 1967.

9.33 While many of the Commission's recommendations were adopted, those pertaining to the merit system and the Public Service Commission's role were not. Some of its concerns about the division of responsibilities for human resource management remain problematic today. For example, the Glassco Commission expressed concern about the splitting of responsibility between the Treasury Board and the Civil Service Commission (now the Public Service Commission) and the implications for accountability and efficiency.

9.34 The 1979 Special Committee on the Review of Personnel Management and the Merit Principle (the D'Avignon Committee). The Committee's examination was, and remains, unique among studies of the human resource management regime, because the public service unions participated fully.

9.35 The Committee's review called for significant changes in the way human resources were managed in the public service. Like the Glassco Commission, the D'Avignon Committee had major concerns about divided responsibility, unclear accountability, the role of the Public Service Commission, and the staffing process. Some highlights of the Committee's review are set out in Exhibit 9.2.

Exhibit 9.2

Long-standing Concerns Identified by the D'Avignon Committee

Source: Special Committee on the Review of Personnel Management and the Merit Principle (the D'Avignon Committee)

The Committee argued that due to the division of responsibilities between the Treasury Board Secretariat and the Public Service Commission, personnel management lacked unified policy, leadership and a "philosophy of management". In its view, "Responsibility for the function is neither clear, undivided, nor complete."

It recommended legislative changes to put staffing in the hands of the Treasury Board and departmental management, repositioning the role of the Public Service Commission to be Parliament's auditor not just for staffing but for human resource management in the broadest sense.

The Committee also argued that an effective accountability regime for personnel management did not exist and many managers were ill-equipped for managing.

9.36 The 1979 Royal Commission on Financial Management and Accountability (the Lambert Commission). The Commission identified problems similar to those raised by the D'Avignon Committee. The Lambert Commission was established not to examine personnel management but to look at matters of financial management and accountability. Nonetheless, it concluded that "the management of personnel in all its aspects is as important as, if not more important than, financial management in achieving overall management of government activities."

9.37 The Lambert Commission also pointed out that Parliament's review of personnel management was more limited than its review of financial management matters through the Public Accounts Committee. The Lambert Commission found that parliamentary oversight was limited, in part, because the responsibility and related accountability for personnel management were fragmented.

9.38 Public Service 2000. The D'Avignon and Lambert reviews generated no major legislative or institutional changes to the human resource management regime. Nor did the several other studies in the 1970s and 1980s that recommended fundamental changes. By 1989, given many years of failed efforts at reform, the rapidly changing environment and the new challenges facing the public service, government officials had a strong appetite for major change. Public Service 2000, a government renewal initiative, raised high expectations for reform of the legislative framework, clarification of the central agency roles and responsibilities, and simplification of personnel systems. All of this seemed possible when the government announced in late 1989 that "the complexity of the administrative regime governing the public service [had] been recognized as a serious problem for more than a decade." A major effort by senior officials followed, and legislative amendments to modernize and add flexibility to the system were made through the *Public Service Reform Act* of 1992. However, the relatively minor changes made in the last decade have fallen short of expectations.

9.39 Much study but little change to the basic framework. Many other studies over this period of more than 30 years have pointed to the need for administrative, legislative and structural changes, and yet some of the key issues remain unresolved. Reluctance to tamper with the independence and role of the Public Service Commission has been a factor. (See Appendix B for a chronology of studies on human resource management.)

An Unduly Complex and Outdated Framework for Human Resource Management

9.40 Over time, the public service has seen the introduction of new legislation and new institutions to reflect societal trends, new "personnel management" challenges and other pressures. The framework governing human resource management in the core public service has grown more complex. Some players have split or shared responsibilities, and accountabilities are not always clear. In 1998 a COSO subcommittee report expressed concern about the potential for confusion, conflict and duplication in the "fractured responsibility" for human resource management in the public service.

9.41 Administrative systems are also overly complex. As recently as 1996, the Treasury Board Secretariat estimated that there were 840 separate pay rates and 70,000 rules governing pay and benefits. In 1997 there were more than 12,000 pages of instructions in the Treasury Board's personnel and pay administration manuals.

9.42 Further, as we noted in our 1995 Report Chapter 12, after more than

A 1998 report raised concern about the potential for confusion, conflict and duplication in the "fractured responsibility" for human resource management in the public service.

six years of effort and an expenditure of $61 million a project to make better use of technology for pay administration was cancelled. This was due in part to the complexities of the pay system.

9.43 The basic legislative framework developed and evolved in an era dominated by "command and control" thinking. Rather than an emphasis on values to be protected and results to be achieved, detailed rules and procedures were developed.

9.44 The current public service environment contrasts starkly with that of the 1960s when systems, processes and management thinking emphasized stability and conformity. Today, circumstances, priorities and means of attaining objectives can quickly change. There is a much greater emphasis on sensible risk-taking and innovative thinking at all levels and in all dimensions of public administration, including the way public servants are managed. Managers need far more flexibility, and employees must be more adaptable. Rapidly changing concepts of people management with vastly different approaches require that supervisors and employees share decision making. Managers also need to invest more in developing key staff.

In the last few years, more than 50,000 public servants have moved from the "core" public service.

Pressures for Timely Action

9.45 The core public service now is smaller than at any time since the early 1970s. Over the last 10 years it has diminished by almost 100,000 employees. From about 240,000 employees in 1990, with a peak of about 243,000 in 1992, employment levels are now at about 143,000. Government downsizing, devolution, privatization, limited recruitment and other measures played a role in this reduction.

9.46 In the last few years, more than 50,000 public servants have moved from the core public service to "separate employers" (within the meaning of the *Public Service Staff Relations Act*). About 4,500 went from the departments of Agriculture and Agri-Food, Health, and Fisheries and Oceans to the new Canadian Food Inspection Agency; 3,900 moved to the Parks Canada Agency in the spring of 1999; and about 43,000 left for the Canada Customs and Revenue Agency in November 1999. Similar moves had taken place in the 1980s (and before), when organizations such as Canada Post (with about 50,000 employees) and the national museums (with about 1,000 employees) became Crown corporations.

9.47 These agencies were created to improve service and enhance efficiency. Their top officials have more flexibility than is possible under the systems and controls in the core public service — controls such as those imposed by the human resource management framework. They are no longer subject to the *Public Service Employment Act* and the Public Service Commission's direct authority to appoint. Nor are they subject to the authority of Treasury Board as employer.

9.48 In the creation of the Canada Customs and Revenue Agency, the case was made that moving to agency status would bring additional flexibility to human resource management. Creating the new agency removed from the core public service a significant amount of human resource management activity. (For example, in the preceding fiscal year, before it became the Agency, Revenue Canada accounted for almost 35 percent of all appointments to and within the core public service under the *Public Service Employment Act*.)

9.49 This has left a complex framework for managing significantly fewer people. More important, the creation of these new agencies points to the frustration with the current regime in the core public service and the difficulty of making substantial changes, despite a number of well-intentioned initiatives. The agencies have more autonomy to

manage their human resources but in the core public service, corrective action is still needed.

9.50 Pressures for renewal and retention. The government needs a human resource management regime supported by a framework that is flexible and responsive to the pressures in the public service and to the changing labour market. Public service managers are taking a number of measures to address these pressures, which demonstrate the importance of moving forward resolutely to make fundamental improvements.

9.51 However, public servants feel stressed and stretched. This was evident in a 1997 study on the work habits, working conditions and health of the Executive Group in the federal public service, a leadership group that is key to bringing about desired change. The study showed that federal executives worked significantly more hours per week (52.9 hours) than members of the professional and managerial groups in the general population (43.2 hours). In addition, they generally took less than their full vacation entitlement annually; and they typically used less than half the average amount of sick leave claimed annually by public servants. The study also reported high levels of stress in the group, frequently accompanied by physical illness (see Exhibit 9.3). These results increase the concern that many executives will choose to retire earlier than they might have otherwise.

9.52 These and other difficulties led the Clerk of the Privy Council in 1997 to acknowledge in her annual report to the Prime Minister the signs of "malaise" in the public service. With the support of her deputy minister colleagues, she undertook La Relève — a public service renewal initiative. But the 1999 survey of public service employees confirms that while employees remain strongly committed to the public service, they continue to feel stretched. Fifty percent of employees indicated that the quality of their work "always" or "often" suffers because they have to do the same or more work with fewer resources.

9.53 The core public service is becoming more "knowledge-based." A variety of factors — technological advances and the changing nature of work, privatization of operations such as airports, the closing of armed forces bases, changes in lines of business and downsizing — have significantly changed the occupational profile of the public service.

9.54 Today, 55 percent of public servants are "white collar" or knowledge workers (those employed in the Executive

Exhibit 9.3

Key Findings of the APEX Study

- An average of 52.9 hours per week were spent on work, with just under a third of the sample reporting over 60 hours or more.
- An average of 7.2 hours a week were spent working at home, with over 34% of those sampled reporting 10 hours or more a week on work taken home.
- The APEX sample had higher rates of interpersonal conflict, workload, responsibility for others, intellectual demand and ambiguity about job future.
- Short-term health effects were noted in a large majority of the sample. This included 92% who reported sleep-related problems, 52% who indicated frequent headaches arising from work pressures and more than 58% who indicated some form of gastrointestinal upset. In all, over 13.4% had sought some form of help.
- Long-term health effects reported by the sample included 16.4% with cardiac diseases, 8% with respiratory illnesses, 8.1% with gastrointestinal disorders, 19.4% with back problems, 5.8% with insomnia, and 3.8% with emotional problems.

Source: Work Habits, Working Conditions and the Health Status of the Executive Cadre in the Public Service of Canada. APEX

Group, the Scientific and Professional and the Administrative and Foreign Service categories). This contrasts sharply with about 15 years ago, when this group constituted roughly a third of the public service. The trend is expected to continue.

9.55 In 1998, another study undertaken by several academics (Career Development in the Federal Public Service: Building a World-Class Workforce — The Duxbury Report) focussed on how knowledge workers in the federal public service perceived their career development opportunities. Approximately 75 percent of respondents indicated that they had considered leaving the public service. Key frustrations included a bureaucracy and a work atmosphere characterized by intergroup conflict and heavy workloads (see Exhibit 9.4).

The public service has become significantly older.

9.56 A number of steps have been taken in response to growing concerns about retaining the current work force. An example is the October 1999 creation of the COSO subcommittee on workplace well-being, chaired by the Secretary of the Treasury Board, with a mandate to develop a federal strategy and a workplan for addressing retention as a priority. The Treasury Board Secretariat also intends to use the 1999 staff survey to benchmark progress.

9.57 A potential leadership crisis lurks in the public service's changing demographics. The public service has become not only significantly smaller in the last decade but also significantly older, with large numbers of impending retirements.

9.58 In 1996, deputy ministers saw the public service as an "institution at risk", given the projected rate of retirements and the retention problems at the executive level and in "feeder groups" (the traditional pool of candidates for executive positions). Top officials acknowledge that significant problems already exist in some professions, such as the regulatory and inspection community.

9.59 Treasury Board data show that as a result of downsizing, limited recruitment and other changes, the percentage of public service employees aged 45 to 54 has increased in the last eight years, from below 24 percent to over 39 percent. Over the last 14 years, their proportion has almost doubled. The situation is about the same in all occupational categories except executives, where it is much worse. Close to 65 percent of executives are now in the 45 to 54 age group. Another 16 percent are over 54 years of age.

9.60 Within a few years, retirements by those now in the 45 to 54 age group are

Exhibit 9.4

Some Findings of "Building a World-Class Workforce" (The Duxbury Report)

"Knowledge workers in the public service enjoy their work, are keen to learn new skills, take great pride and personal satisfaction in making a contribution to Canadian society and are prepared to take on new challenges."

"They are, however, frustrated by a perceived lack of recognition for the work they do (both within the Public Service and from the Canadian public), by human resources management practices within the Public Service, and by various aspects of the bureaucracy. The data would suggest that these frustrations have contributed to low levels of commitment and a high propensity to consider other employment."

"While respondents have...given considerable thought to their career goals, they feel that their immediate supervisor, their department and the Public Service have provided little support for their career development."

"Respondents were...pessimistic about their future career prospects in the Public Service...Only 24% of the sample were satisfied with their ability to advance in the Public Service."

Source: Career Development in the Federal Public Service: Building a World-Class Workforce (The Duxbury Report)

expected to increase dramatically. Public Service Commission data reveal that more than one third of executives will be eligible to retire by 2002, under the current regime (almost 40 percent of assistant deputy ministers). According to the Treasury Board Secretariat as of January 1998, 70 percent of executives could retire within 10 years.

9.61 Data on the "feeder groups" show that this pool is also older than the public service average, and may see higher departure rates in the decade to come. This will increase the difficulty of replacing large numbers of departing executives. Central agency estimates show that:

- in the primary feeder group (senior classification levels in four occupational groups in the Administrative and Foreign Service Category), which accounts for over half of promotions to the Executive Group, 56 percent are aged 45 to 54 — 17 percent more than the public service average; and

- in the secondary feeder group (senior levels in 11 other occupational groups), which accounts for almost one quarter of executive appointments, 45 percent of employees are aged 45 to 54 — six percent more than the public service average.

9.62 **Youth are underrepresented in the current public service.** The public service work force is currently older than the Canadian work force as a whole. The percentage of public servants under 35 years of age is roughly half that in the Canadian work force. The Treasury Board Secretariat forecasts that this gap will widen substantially over the next decade unless special measures are taken.

9.63 Concerns about the potential impacts of changing demographics in the public service and about low recruitment (especially of recent university graduates) have increased the focus on recruitment. The priority given to this problem is evident in the formation last fall of a COSO subcommittee of deputy ministers chaired by the Clerk of the Privy Council. The subcommittee's objective is to "develop a problem statement, a federal strategy and workplan to address recruitment needs."

9.64 **The public service also needs to meet new challenges of a changing labour market and workplace.** The challenge of competing with the private sector for skilled people has grown in recent years. Given the demographics of the Canadian labour force, the challenge can be expected to increase in the years ahead.

9.65 The rate of growth in the Canadian labour force has declined by nearly half since the 1960s. The number of Canadians in the age group that typically enters the work force (those between 15 and 24) dropped by 28 percent in the 1980s, according to a recent study. Further, the education and skills of many seeking employment are often inadequate for the jobs that are vacant.

Priority is given to recruitment.

9.66 Moreover, knowledge workers are bringing new expectations to the workplace. Many are becoming more entrepreneurial and more demanding. They have different career expectations, emphasizing employability rather than career-long loyalty to a single employer. These workers are better educated, more experienced with technology and more culturally diverse, and they prefer to work in self-directed teams.

9.67 Workplaces are rapidly evolving to meet the expectations of knowledge workers. Many organizations are moving away from systems and practices that, like those of the public service, are based primarily on position. They are moving to approaches based on competency, with freer-flowing teams and organizational structures.

9.68 More than one in three public servants who responded to the 1999 survey said they did not have an

opportunity to develop and apply the skills they needed to enhance their careers. Their supervisors or their departments did not provide the necessary assistance with career development.

9.69 To meet the challenges of recruitment, development and retention and to ensure that it is representative of the population it serves, the public service must be seen as an attractive workplace. The employment regime must be nimble and responsive.

A Number of Initiatives in the Right Direction but Broader Reform Required

Reforms have been moving in the right direction, but underlying problems need to be addressed.

9.70 Past efforts to reform the human resource management framework have shown the difficulty of making broad changes. Our discussions with senior public servants found wide support for changing the legislative framework, particularly among human resource management specialists. However, there are concerns, notably among deputy ministers, about the practicality of pursuing such fundamental reforms.

9.71 Reforms have been moving human resource management in the right direction, but underlying problems need to be addressed. Measures are under way to increase efficiencies and improve existing management systems and practices, although the legislative and institutional framework they support limits the changes that can be made.

9.72 Within the current arrangement, however, roles and responsibilities can be clarified and transparency and accountability improved. If management systems are more transparent and reporting improves, Parliament will be better able to scrutinize progress in the reform of the human resource management regime.

9.73 Some areas, such as staffing, need substantial change — even legislative change. Pursuing legislative change will require that all pieces of the basic legislative and policy framework be examined. For example, legislative and other constraints restrict the Public Service Commission's ability to introduce, on a broad basis, the concept of "appointment-to-level," despite legislative amendments in 1993.

9.74 A move from a "position-based" system to one based on "appointment-to-level" was first recommended more than 25 years ago. The 1993 amendments were designed to permit such a system, one that would provide more flexibility to match people to jobs. This would enhance employees' career development prospects and allow positions to be filled much more quickly than at present.

9.75 But the 1993 amendments touched only on appointment mechanisms. They did not affect other aspects of human resource management that are position-based, such as job classification and application of the Work Force Adjustment Directive. The Commission has acknowledged that appointment-to-level cannot be broadly instituted without comprehensive changes to such fundamental aspects of the human resource management regime. This would involve legislation in addition to the *Public Service Employment Act*, and would affect policies that have been the subject of collective bargaining or National Joint Council consultations.

Human Resource Management Systems Are Cumbersome, Costly and Outmoded

9.76 **The main human resource management systems are prescribed by, or closely linked to, the statutory framework.** The *Public Service Staff Relations Act* sets out the collective bargaining regime (which covers about 85 percent of employees in the core public service). It specifies the matters excluded from bargaining, such as job classification and staffing. The public service staffing

system is prescribed in some measure in the *Public Service Employment Act*.

9.77 The job classification system in place since 1967 was designed largely as a basis for establishing bargaining units for collective bargaining. The introduction of the new Universal Classification Standard required amendments to the *Public Service Staff Relations Act*, made through the *Public Service Reform Act*.

9.78 Current systems are overly complex, inefficient and in need of reform. As far back as 1983, this Office reported that managers viewed existing systems — particularly the job classification and staffing systems — as key constraints to productive management.

9.79 They are very costly to administer, as reported in 1990 in the White Paper on Public Service 2000. It noted that in 1985 there were proportionately three times as many people administering the human resource management regime as in leading private sector employers. The job classification reforms proposed at that time aimed to achieve a "significant reduction of the number of classification, staffing and pay actions, which will generate considerable savings."

9.80 Preliminary information from a benchmarking study done for Treasury Board Secretariat (to be published in 2000) shows that the public service has one human resource management professional for every 28 employees. One source indicates that the private sector norm is about one to 100. The study argues that the higher ratio in the public service can be attributed to both "the structure of the function" and its labour-intensive transactions.

9.81 Despite important efforts to reform them, these systems continue to be a problem. In 1995, when the significance of the changes generated by Program Review became widely apparent, public service specialists characterized the human resource management regime as "heavily control-oriented and prescriptive in nature." They said it was "not responsive in timely and cost-effective ways" and was "increasingly ineffectual in responding to the current challenges." The 1998 progress report of La Relève reflects the same view. It calls job classification "cumbersome, complicated, and a barrier to flexible career development and mobility." And it says the staffing system is "time-consuming, inflexible, rules-bound, even litigious."

9.82 Until the new Universal Classification Standard is in place, the job classification system will remain highly complex. It comprises 72 occupational groups (106 sub-groups), each with a separate job evaluation standard. The current system is not seen as equitable. Fewer than half of those who responded to the 1999 employee survey said they believe their position is classified fairly compared with others doing similar work in their organization or elsewhere in the public service.

Current systems are very costly to administer.

9.83 The collective bargaining regime has not functioned well. Collective bargaining rights were modified or suspended for periods that, taken together, amount to almost half of the two decades preceding 1997. As a first step in implementing the Universal Classification Standard, the occupational groups have been restructured from 72 to 29 for collective bargaining purposes. According to the Treasury Board Secretariat, this has had a positive effect at the bargaining table.

9.84 The classification system and the collective bargaining process have made the staffing and pay and benefits systems more complex. There are different selection standards for different occupational groups, and separate pay ranges for the various levels in each group, as well as many terms and conditions unique to particular groups.

9.85 There are significant pressures for change. The Treasury Board Secretariat recognizes that major changes to the collective bargaining framework are unavoidable. It recently announced the formation of an advisory body, headed by a long-time labour leader, with a mandate to examine collective bargaining and recommend changes.

9.86 **Administrative complexity also arises from central and departmental policies.** After 1967, legislative additions to the human resource management framework increased the obligations of managers and supervisors. Employees had new avenues of complaint and redress. This increased the amount of effort spent on issues of process rather than on matters of strategic importance to departments and agencies.

The Treasury Board Secretariat and the Public Service Commission have tried to make management processes more flexible.

9.87 Much of the administrative burden on departments and agencies, however, arises from policies and systems developed by the Treasury Board Secretariat and the Public Service Commission in interpreting and applying the legislation for areas like official languages and staffing. These policies do not always apply to entities elsewhere in the federal public sector. Hence, for managers in the core public service the complexity and the associated costs are greater, and timely action more constrained, than for managers in other areas of the federal public sector.

9.88 Various studies, however, have noted that departments and agencies have themselves developed policies and systems they consider necessary to ensure that their organization complies with central requirements. These have been cited as an important additional constraint on managers, and a factor in the complexity and cost of human resource management.

Improvements in the Right Direction

9.89 Throughout the 1970s and 1980s, the Treasury Board Secretariat and the Public Service Commission tried to make management processes more flexible. This was in response to the growing size and complexity of government, pressures to improve efficiency in an increasingly changing environment, and a desire to address the systemic problems identified by numerous studies. As the Secretariat and the Commission moved more toward providing direction and guidance instead of controlling transactions, they delegated substantial authority for job classification and staffing actions.

9.90 In 1999, the Treasury Board Secretariat published "A Framework for Good Human Resources Management in the Public Service". This framework outlines a vision for human resources and provides the basic supporting components — leadership, a work force built on values, a productive work force, an enabling work environment, and a sustainable work force. The framework also contains performance criteria and indicators as well as possible sources of information on each component.

9.91 At the same time, the nature of monitoring, evaluation and review mechanisms and their use by the centre were evolving. Initially, departments with delegated authority were required to follow elaborate procedures and maintain detailed files for review by the Secretariat or the Commission. More recently, the Treasury Board has relied on audits and reviews carried out and reported by the departments themselves, and the Commission has begun moving in the same direction.

9.92 While the Treasury Board's approach to management has been evolving and the Commission has continued with efforts to reform and speed

up the staffing process, the role of the Privy Council Office has also been changing.

9.93 In the late 1960s, the Privy Council Office began to focus increasingly on policy co-ordination and to pay closer attention to human resource management issues in the public service. By the mid-1980s, following the failure of the Lambert and D'Avignon studies to effect change, the Privy Council Office led an initiative aimed at simplifying the complex, legalistic staffing system.

9.94 Under the Clerk's leadership, a more collective approach to management has developed that involves the Committee of Senior Officials (COSO) and its ad hoc subcommittees. This approach arose over the last decade in response to the changing circumstances that created pressures to move away from rules and to focus more on clients and results, and achieve better value for money. There has been a growing recognition of the importance of people to the achievement of results — of the fact that attaining government objectives depends in large measure on resolving human resource management issues in the public service. It is also a reflection of the fact that such issues often require action beyond the scope of any one institution.

9.95 The most recent Speech from the Throne reaffirmed the government's intent toward the public service. It stated: "To ensure that the Public Service of Canada remains a strong, representative, professional and non-partisan national institution that provides Canadians the highest quality service into the 21st century, the Government will also focus on the recruitment, retention and continuous learning of a skilled federal work force."

9.96 The entire community of deputy ministers has become more involved in corporate management issues. In 1989, for example, 10 task forces led by deputy ministers were formed in connection with Public Service 2000 to examine human resource management and other issues. As well, the Clerk began to hold weekly meetings of deputy ministers to discuss key government and public service issues. More recently, a number of ad hoc committees examined issues such as values and ethics, the need to strengthen the public service's capacity for policy development, and models of service delivery. Three COSO subcommittees were created in the fall of 1999 to look at recruitment, workplace well-being, and learning and development.

The Staffing Process: A Major Source of Frustration

9.97 **Prescriptive legislation and jurisprudence in staffing appeals have led to a more rigid staffing process.** Staffing is governed by the *Public Service Employment Act (PSEA)*. It assigns authority to the Public Service Commission for appointments to and within the core public service, but permits the delegation of staffing authority to deputy ministers. Deputy ministers have statutory authority for "deployments" (lateral transfers).

9.98 The legislation is at once both flexible and prescriptive. Flexibility arises from provisions that grant discretion to the Public Service Commission. For example, the Commission may ask the Governor in Council for "exclusion approval orders", under which certain staffing actions may be exempted from the Act or specific provisions of it.

9.99 At the same time, the Act prescribes requirements that staffing processes must meet, such as those related to the consideration of applications and the establishment of eligibility lists. Another example is the appeals process provided for in the Act, which prescribes that any "defect in the process" of selection must be considered.

9.100 Jurisprudence in staffing appeals has complicated public service staffing.

Under the leadership of the Clerk of the Privy Council, a more collective approach to management has developed.

Jurisprudence in staffing appeals has complicated public service staffing.

The appeal process was designed to be a simple and efficient administrative mechanism for reviewing appointments. However, in 1971 the Federal Court was given a mandate to review the administrative decisions of federal boards and certain other bodies, including decisions made on staffing appeals under the provisions of the *PSEA*.

9.101 With the passage of time, court judgments have had a significant impact. Since 1971, the appeal process has become quasi-judicial in nature, and resolving appeals can now be a lengthy process.

9.102 Despite amendments made to the *PSEA* in 1993 to restore the Public Service Commission's discretion and powers — which court decisions had progressively narrowed over the years — these judgments have made the entire staffing system significantly more difficult to administer. Additional rules, rigidly interpreted and applied to minimize the number of appeals, have made an already rule-bound selection process slower and more cumbersome. Exhibit 9.5 provides an illustration of the consequences of one of these court decisions.

9.103 **Staffing reform is imperative.** Authority for most staffing actions has been delegated to deputy ministers and their departmental staff for almost two decades. And in 1993, deputies acquired statutory authority for deploying staff. Yet the 1996 Consultative Review of Staffing conducted for the Public Service Commission and our own work indicate that public servants are frustrated by the staffing system.

9.104 Many studies, including some done by or for the Commission, have recommended fundamental changes in the staffing system and the legislative framework that governs it (see Exhibit 9.6). Numerous initiatives, including the legislative changes in 1993, have been aimed at improving the system.

9.105 Nonetheless, public service managers continue to view staffing as unduly complex, inflexible and inefficient, and many employees still are not confident that the system is fair. The 1999 survey of public service employees indicates that only 60 percent of respondents believe that the process of selecting a person for a position is fair in their work unit.

9.106 A recent study shows that the staffing system in the core public service is slow when compared with selected quasi-public organizations, most of which also apply the principle of merit in seeking to appoint the best-qualified person. It takes about twice as long, on

Public service managers continue to view staffing as unduly complex, inflexible and inefficient.

Exhibit 9.5

The Impact of a Federal Court Decision on Staffing

A 1991 decision on the validity of eligibility lists required under the *PSEA* states, "Evidence tending to show that a list is based upon data which are out of date is clearly relevant to [an] inquiry [by an appeal board]. The weight to be given to that evidence and its effect are matters of fact entirely within the Board's province." This, despite the fact that under the *PSEA*, "An eligibility list is valid for such period of time as may be determined by the Commission in any case or class of cases."

The 1996 Consultative Review of Staffing documentation describes the impact of this decision: "This means that an appeal board can overturn an appointment from an eligibility list on the basis that things may have changed so much since it was established that there is no assurance that it still represents the order of merit of candidates. This would be the case even though it may be within the two-year limit for the validity of lists established by the Commission. This can be a double whammy for departments, because delays caused by the appeals process itself may result in a need to make appointments long after the list was established. It is particularly a problem in the case of large competitions which are lengthy and costly to conduct and sometimes result in multiple appeals that can take a long time to resolve."

Source: Consultative Review of Staffing

average, to staff a position in the core public service. This is despite numerous initiatives by the Public Service Commission to streamline and simplify the system, and many years of efforts by departments to improve their management of staffing.

9.107 The study shows that it takes 119 calendar days on average to complete a closed competition in the core public service, not including added time to deal with any appeals. For a new position that needs to be classified, staffing takes 230 calendar days on average — almost eight months (see Exhibit 9.7).

9.108 There is broad agreement on the need for staffing reform, and the Commission concurs. There is also broad support for the notions that the system needs to be based more on values and less on rules; that regardless of the system, accountabilities for using the discretion provided must be clear; and that the interests of everyone involved must be respected.

9.109 The Consultative Review of Staffing foresaw the need for legislative changes to create a system based on values. It proposed guidelines that would apply nationally but be flexible and broad enough to let departments and regions develop procedures that suit their needs and conditions.

9.110 The Public Service Commission also says that a desirable staffing system would be one that is less reliant on rules and based more on shared values. However, it believes there is room under the existing *Public Service Employment Act* to move in that direction, and that the issues need to be defined more clearly before concluding that legislative reform is necessary. During the course of our study, the Commission was undertaking another round of staffing reform in response to the findings and recommendations of the 1996 review and to other pressures. However, certain provisions in the *Public Service Employment Act* and other legislation limit how far the Commission can go in tailoring the staffing system.

There is broad agreement on the need for staffing reform.

Exhibit 9.6

The "Merit Principle" or the "Merit System"

Since as far back as the 1962 report of the Glassco Commission, the public service staffing system has been a source of frustration. While the Glassco Commission endorsed the continued use of the "merit principle" in staffing the public service, in its view the "merit system" (the rules, regulations, policies and procedures designed to implement the principle) "frustrates the attainment of the principle."

The Commission added, "...in its name many absurd procedures are tolerated; the system has become an end in itself, overriding the need to 'get the job done'; and all too frequently it has engendered such delays in the attempt to get the 'best' man that his loss to a more nimble employer was ensured."

The D'Avignon Committee's 1979 report echoed Glassco's findings. It found "excessive and inflexible regulations and a slavish adherence to universally applied regulation in the name of merit at the expense of efficiency and effectiveness." It noted that the staffing system was viewed by managers as slow, inflexible and inefficient; viewed by unions as misguided and inequitable; and seen by many employees as frequently failing to ensure that their qualifications were fairly and objectively assessed.

In 1990, the Public Service 2000 staffing task force argued that the rigidity of the staffing system was the result of prescriptive legislation and a failure to recognize that human resource management faces competing objectives and therefore cannot be guided by prescriptive rules. It advocated legislative changes to transform the staffing system "into one in which managers have the responsibility to use their judgement within a framework of general policies and guidelines and are subsequently held accountable for the staffing process and their staffing decisions."

9.111 There is a pressing need to modernize and streamline the processes for staffing and recourse in the public service.

The Role of the Clerk of the Privy Council in Co-ordinating Necessary Change

The Clerk has devoted a lot of time to human resource management issues.

9.112 The Clerk of the Privy Council and Secretary to Cabinet has emerged as the visible leader of the public service, particularly over the last decade with the addition of the statutory title Head of the Public Service.

9.113 As Head of the Public Service, the Clerk is in a position to assess its needs and answer for its performance. The Clerk can provide the visible leadership that is essential in any modern organization where morale and individual commitment are the keys to attracting and keeping a motivated work force.

9.114 The Clerk's strengthened leadership role and the statutory responsibility to report annually on the public service are positive developments. The deputy ministers we met acknowledged that the Clerk's increased involvement in human resource management issues was positive. It had led deputies to greater involvement themselves and had given them a better understanding of the issues.

9.115 Over the last several years, the Clerk has devoted a lot of time to human resource management issues. For example, the renewal initiative La Relève was begun to address what the Clerk had described in 1997 as a "malaise" in the public service.

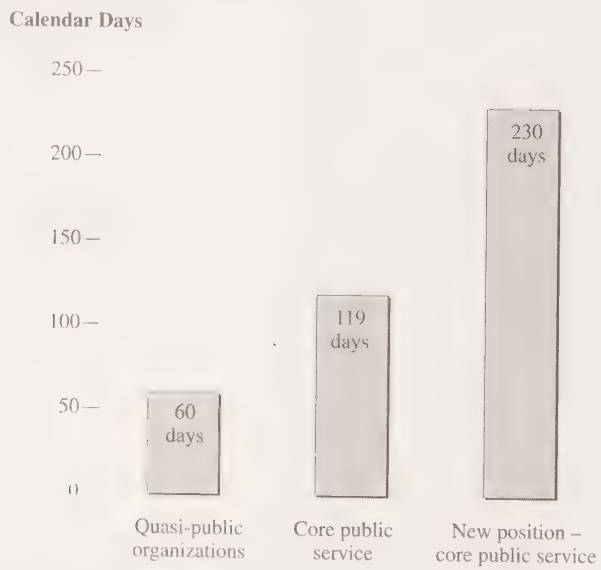
9.116 La Relève called for departments, central agencies and others, including the community of human resource management specialists, to develop action plans for the renewal of the public service. A committee of deputy ministers chaired by the Clerk reviewed those plans. Exhibit 9.8 portrays some of the points on which a consensus was seen as emerging. These plans are important and will support positive change, but they do not address some underlying structural issues that need to be resolved.

9.117 COSO (the Committee of Senior Officials) has existed for many years. Chaired by the Clerk, it now comprises 12 deputy ministers, including the Secretary of the Treasury Board and the President of the Public Service Commission. Although initially its role was to advise the Clerk on the selection of deputy ministers and on their performance, its mandate for human resource management has evolved considerably.

9.118 Since the 1980s, COSO has also become involved in advising the Clerk on public service renewal and on a range of strategic human resource management issues. For example, in 1987 a COSO subcommittee was formed to identify and report on the values governing the public service. And more recently, a subcommittee examined the state of the

Exhibit 9.7

Average Time to Staff a Position Through an Internal (Closed) Staffing Process



Source: Consultative Review of Staffing

community of public service specialists in human resource management. Among other strategic functions, it now provides corporate oversight of the identification and development of senior executives at the assistant deputy minister level. COSO is supported by the Privy Council Office, which has a small Management Priorities and Senior Personnel Secretariat. Its ad hoc subcommittees, which number from five to seven at any given time, draw on personnel in central agencies and line departments when needed.

9.119 In addition, over the last couple of years, deputy minister "champions" have been named to examine and report to COSO on various key issues. These champions lead the search for solutions, and represent to central agencies and COSO the interests and concerns of specific segments of the work force to whom they provide ongoing leadership. Some of the topics examined by champions are the management of human resource issues in the community of scientific and technical personnel across the public service; management of the community of specialists in human resource management; and management of regulatory and inspection personnel.

9.120 In effect, as a subset of the community of deputy ministers, COSO has become a forum to determine the corporate direction on human resource management issues. It demonstrates the collective approach to managing human resources in the federal government. But responsibility and accountability for streamlining and simplifying the existing regime — for engaging Parliament in the

Exhibit 9.8

Some Key Messages From La Relève

La Relève: Key points of emerging consensus

- strategic human resource planning is an essential element of business planning and will depend on the availability of much better data;
- a comprehensive recruitment and retention strategy is required;
- workplace health needs urgent attention;
- pride in the public service needs to be addressed, and employee contributions need to be better recognized;
- compensation is a major issue;
- women continue to be underrepresented in the Executive Group;
- all equity groups are underrepresented at all levels;
- the needs of administrative support staff should be addressed;
- barriers to mobility (within and between departments, regions, jurisdictions and functions) need to be broken down;
- a learning culture needs to be developed;
- the approach to management of human resources needs to be updated;
- leadership, commitment and sustained effort are needed.

There is a demand for public service leaders to:

- strike a reasonable balance between work and personal lives for themselves and their employees;
- visibly embody a commitment to change and improvement in the management of people;
- fully integrate people issues into the organization's business plan;
- account for the state of employee motivation and capacities while holding employees accountable for the results of their work.

Source: La Relève: A Commitment to Action

changes that are needed in the governance structure and in supporting systems and practices — has not been clearly assigned.

9.121 The Treasury Board Secretariat also has a senior advisory committee of deputy ministers (TBSAC) to ensure that the perspective of line departments is brought to bear on human resource management and other administrative matters submitted to the Treasury Board. The Secretary of the Board uses TBSAC as an advisory body for all Treasury Board issues of consequence. TBSAC is currently composed of 12 deputies, six of whom are also COSO members. It is supported by top officials of the Treasury Board Secretariat, and staff responsible for particular agenda items. Some matters are directed only to TBSAC or to COSO, others to both or to meetings of all deputies. Officials indicate that COSO focusses on strategic human resource issues that are often broader than the management issues referred to TBSAC.

Many senior committees address different aspects of human resource management in government.

9.122 Thus, many senior committees address different aspects of human resource management in government. The committees have different memberships and different reporting frameworks but comprise mostly deputy ministers. The way both the overall organization and the senior committees are structured — the fractured responsibility — makes it difficult to address the underlying issues of accountability.

9.123 Responsibilities in the public service are divided in several ways: between elected and appointed officials; among central agencies; and between central agencies and line organizations. No single body — not the Treasury Board Secretariat, Privy Council Office, COSO, TBSAC, nor the Public Service Commission — has overall responsibility for the legislative and institutional framework underlying the human resource management agenda. Indeed, through the years, responsibility for human resource management has grown much more complex.

9.124 Another matter for which none of the players has clear, undivided responsibility and that hence is difficult to manage is the strength of the community of human resource management specialists. It is acknowledged that this group has been vital to meeting the major management challenges of the last decade.

9.125 During the 1960s and 1970s, the Public Service Commission and Treasury Board Secretariat actively managed this group of "personnel administrators." As departments assumed greater responsibility for their own affairs, this began to change.

9.126 At least as far back as the early 1990s, it was widely acknowledged by many that a more strategic approach was needed to address known problems around the qualifications and experience of many in the community, and its overall capacity. Yet there is still real concern that necessary action has not been taken. Addressing these problems has now become a top corporate priority.

9.127 Responsibility and accountability for the changes needed to simplify, streamline and strengthen the current human resource management regime need to be clearly assigned and appropriately supported. This is particularly important in areas of divided responsibility.

The Role of the Deputy Minister in Managing the Department

9.128 Some departments are very large. For example, Human Resources Development Canada has about 23,000 employees. Given the size, complexity and diversity of the public service, the management regime has evolved so that departments now are expected to manage their own employees. In doing so, they must work within the legislative and central policy frameworks. Yet the deputy minister has very little

statutory authority for human resource management (other than, since 1993, the authority to deploy staff — that is, to transfer them laterally). Instead, the Treasury Board and the Public Service Commission delegate responsibilities for specific functions to deputies, who delegate them in turn to subordinate officials. The range of departmental management's human resource management responsibilities includes recruiting, remuneration, deployment, development, motivation, promotion, and managing relationships. Central policies govern most of these matters, and central agencies are involved in them.

9.129 There is a general consensus that some functions of human resource management are best carried out corporate-wide. Current examples of this approach include collective bargaining, the design of job evaluation systems, and managing initial entry into the public service and into the ranks of the Executive Group. But people agree that most human resource activities should be carried out in departments, and that central agency involvement should be minimized and based on clear need. Some officials argue that departments should be responsible for aspects of collective bargaining.

9.130 The once centrally managed and controlled approach has evolved significantly over the last three decades. Central agencies have grappled over the years with how the functions delegated to departments should be monitored and controlled and how accountability should work. This continues to be an issue — staffing is but one illustration.

9.131 Deputies themselves recognize the need to give higher priority to human resource management. A COSO subcommittee in 1998 stressed the crucial role of deputies in promoting the necessary change in management culture. It said that deputies need to "walk the talk" of responsible leadership, to pay sustained attention to human resource management, and to hold their managers accountable for their performance in managing people. The responsibility and accountability of deputy ministers for many aspects of human resource management remains diffused and indirect.

9.132 The concern about accountability is not new. The full scope of deputy ministers' responsibility for the "health " of their organizations needs to be clarified before this concern can be overcome. It is possible to operate through the delegation of responsibilities, but accountability for them and for the department's ongoing capacity to deliver desired results must be demonstrated consistently and with a measure of transparency. As the White Paper on Public Service 2000 argued in 1990, the public service as a whole depends on effective accountability, applied consistently to deputy ministers. It stated, "The missing link all along has been effective accountability...Many of the [necessary] accountability measures...already exist to one degree or another. But they are being applied indifferently...Effective accountability for the Public service as a whole...very largely depends on effective accountability for Deputy Ministers."

Deputies recognize the need to give higher priority to human resource management.

9.133 The federal government has attempted in the last decade to focus more on results, and to improve performance management and assessment for deputies. This has included an attempt to deal with concern that, in the assessment of deputies' performance, the weight given to human resource management was unclear, particularly for matters such as staff morale. This effort included giving direction to deputies on La Relève and, according to officials, enhanced performance agreements and accountability frameworks. An attempt has been made to strengthen the performance assessment process for managers at lower levels as well.

9.134 Over the last three years, public service renewal has been a top priority for

deputies. As we have noted, they support the recent emphasis on renewal and human resource management. They believe that their increased involvement has exposed them more to issues whose resolution is important to the achievement of government objectives.

9.135 However, changing a culture and correcting other weaknesses in human resource management will require a focus on the long term, and ongoing commitment. Succeeding will be more difficult given the significant rate of turnover among deputy ministers. Of the 28 deputies who signed the La Relève document *A Commitment to Action* in October 1997, only 16 remained by December 1999, and three of those were heading different organizations.

It is crucial that new responsibilities and deputies' accountability for acting on them be set out clearly.

9.136 Excellence in human resource management needs to remain a continuing priority across the public service, supported by a coherent and clearly defined structure. Human resource planning needs to be a key component of departmental business plans. Accountability must be effective so the needed changes can be made throughout the management and supervisory ranks.

The role that is appropriate for the Public Service Commission has been the subject of a great deal of study.

9.137 The role of deputies needs to take a significant step to institutionalize the move away from a system that has seen them as primarily responsible for administering a centrally prescribed framework. They need to be seen as having pivotal responsibility for developing and maintaining a healthy work environment in their department by making human resource management an integral part of departmental planning, and their performance needs to be assessed on that basis.

9.138 The underlying philosophy should be that deputies have the authority to act at their own discretion in all areas except where the centre has chosen to prescribe policy, and those areas should be limited to the minimum essentials. It is crucial that new responsibilities and deputies' accountability for acting on them be set out clearly.

9.139 The responsibilities of deputy ministers for human resource management, as leaders of the major organizations of government, need to be set out formally in the context of their overall management responsibility. Deputies need to be clearly accountable for the way their departments perform these responsibilities.

The Role of the Public Service Commission

9.140 The Public Service Commission is a parliamentary agent — independent from Cabinet and required to report directly to Parliament. The Commission has exclusive statutory authority for "appointments" to and within the public service, and related responsibilities for recourse. It also has responsibilities for training and for employment equity, and handles other matters as assigned by the Treasury Board or by the Governor in Council.

9.141 The role that is appropriate for the Public Service Commission has been the subject of a great deal of study, particularly its relationship to the Treasury Board as the employer. For example, the Glassco Commission urged that its role in staffing be confined to certifying initial appointments. The Lambert Commission and the D'Avignon Committee argued similarly that responsibility for staffing ought to be in the hands of "the employer" and departments. D'Avignon proposed that the Public Service Commission act as a parliamentary auditor, not for staffing alone but for human resource management in a broader sense.

9.142 However, the government has not accepted these changes. The Public Service Commission continues to carry out its multiple responsibilities: as Parliament's agent in preserving a non-partisan, professional public service; as a central agency of government in

training and other matters; and as a service delivery agency in providing services, expertise and regional presence.

9.143 Since the enactment of the *Public Service Employment Act*, the Commission has delegated authority to deputies for most staffing actions. It has also worked to make the staffing system more efficient and to respond to issues as they arose, while maintaining the merit principle. Despite these efforts, including the legislative reforms of 1993, dissatisfaction with the staffing process persists. To address these and other concerns, in 1996 the Commission began consultations with stakeholders and undertook further reforms, which officials advise include a strengthened approach to accountability.

9.144 Its consultations led the Commission to propose withdrawing from various operational roles not central to its core mandate of protecting the merit principle. It would delegate further responsibility to departments over a time span agreed to with individual deputies, and would focus on the various dimensions of its oversight responsibility. The Commission pointed to the potential for conflict in finding itself "increasingly present at tables comprising the very officials whose staffing decisions it may be adjudicating, reviewing or auditing." Accordingly, as a matter of principle, it could not "optimally oversee its delegated authorities while being part of the system of program administration itself."

9.145 In 1999, after consulting on its proposals with deputy ministers, unions and others, the Commission reported a broad consensus on the importance of merit as a fundamental value to be safeguarded and on the "critical and unique independent role" of the Commission. How the Commission's oversight role would change and whether its operational role would be restricted were to be examined further. The Commission advises that there is a consensus that it should not withdraw entirely from its operational role at this time.

9.146 It is imperative that the Commission, as an independent agent of Parliament, discuss with parliamentarians any changes it may consider necessary in its role. In this instance, the Commission's proposals were raised in its 1998–99 Annual Report and, in December 1999, the Commission invited discussion by writing to the clerks of the House of Commons Natural Resources and Government Operations Committee and the Senate National Finance Committee. The dialogue has yet to take place.

9.147 In its reports to Parliament, the Commission needs to reflect its performance in carrying out its responsibilities, particularly those carried out directly for Parliament. The Commission's reports do not sufficiently address what it is doing to ensure the protection of merit, what its plans and expectations are, and how well the public service and individual entities have adhered to the provisions and principles of the *Public Service Employment Act*. The Commission's reports often contain information that, while useful, deals less with its own core mandate than with broad issues of human resource management.

It is imperative that the Commission discuss with parliamentarians any changes in its role that it may consider necessary.

9.148 There appears to be broad support for a public service based on merit, and agreement that the Public Service Commission has a vital role to play in protecting the merit principle. It needs to clearly set out how it does this so that Parliament will have the necessary assurance that merit is protected. Also to be resolved is the extent to which the Commission should be involved in operational or service delivery roles that are not central to the protection of merit.

9.149 Important in the dialogue with Parliament will be a discussion of the need for legislative reform of staffing. It is generally agreed that the existing system is overly complex and inefficient. There is broad support among officials, and

Commission backing, for a staffing system that would be based more on values and tied less to rules and procedures — a system where deputies and their managers would exercise more authority and be more clearly accountable for their performance. The Commission has begun to actively engage departments in building such a system.

9.150 The Public Service Commission needs to engage in an active dialogue with Parliament about changes in its activities and how it carries out its responsibilities for merit protection. This dialogue should encompass legislative reform of staffing. The Commission needs to improve its reporting on departmental performance in adhering to the provisions and principles of the *Public Service Employment Act*.

The Treasury Board has reduced its control over departmental actions by issuing broad policy guidelines.

The Role of the Treasury Board and its Secretariat

9.151 The Treasury Board has much of the legal responsibility for managing the core public service. In human resource management it has almost all of the statutory authority, with the notable exception of the powers assigned to the Public Service Commission. Adjusting to significant and increasingly rapid change and recognizing the need for more management flexibility in departments, the Treasury Board and its Secretariat have been moving away from a "command and control" philosophy and detailed central controls.

The Board and its Secretariat are accountable for the overall functioning of the system.

9.152 The Treasury Board's strengthened focus on "managing for results", and its shift to a more strategic role, have led it to increase its delegation of responsibilities to deputies and to streamline policies and systems. The Board has also reduced its control over departmental actions by issuing broad policy guidelines instead of rules. In making its decisions, it has placed greater emphasis on the specific operating environment of each department. The Board aims to provide a common management framework, one flexible enough to fit the specific circumstances of individual departments and agencies in the core public service.

9.153 The changes in central controls have meant that the Treasury Board and its Secretariat have significantly less information about the details of departmental performance. And, over time, it has become increasingly difficult for them to monitor departmental performance and provide information to Parliament on the many administrative matters for which they have legislative responsibilities. Thus, they rely more on departmental self-assessments of performance.

9.154 Under current arrangements, although they have delegated certain authority to deputy ministers and deputy heads, the Board and its Secretariat are responsible for ensuring that deputies are held to account for the way they exercise that authority.

9.155 The Board and its Secretariat are accountable for the overall functioning of the system. The Board retains authority to establish policies on personnel management. In its responsibility to act as the employer for the core public service, it negotiates with public service unions through its Secretariat. Accordingly, the Board is accountable for the effectiveness of the overall management framework and for the specific policies, systems and provisions of collective agreements that it approves.

9.156 Performance reports to Parliament from both the Treasury Board Secretariat and individual departments provide very little information on how they carry out their responsibilities for human resource management. There is little information on their expectations for the coming year and subsequently on their achievements.

9.157 There is a need for the Treasury Board to strengthen its reporting to Parliament on the public service human resource management matters for which it is responsible. As well, there is a need to clarify deputies' responsibility for reporting on the quality and effectiveness of human resource management in their departments.

Conclusion

9.158 We undertook this study to identify the changes in roles and responsibilities and related accountabilities for human resource management that are needed to enhance the public service's capacity in a rapidly changing environment. We also wanted to inform Parliament about progress in resolving long-standing concerns about the effectiveness of the framework that governs human resource management in the core public service.

9.159 An efficient and effective public service is essential to the well-being of the nation. Canada's public service faces significant pressures and challenges in human resource management, including a changing labour force and increasing competition for skilled workers. Action to ensure that a healthy and strong institution can serve Canada and Canadians is of crucial importance.

9.160 Steps to address these pressures will need to deal with some of the long-standing issues that underlie the current complex, cumbersome regime of human resource management. What is needed is a flexible and responsive system that supports and sustains continuous improvement.

9.161 The public service has been able to pull together in periods of crisis, such as its downsizing in the second half of the 1990s, to achieve the results sought by government. But this does not mask the basic inefficiency of the system, or the fact that some long-standing tensions remain that inhibit effective streamlining and modernization of the regime to provide for ongoing adjustment and adaptation.

9.162 The legislative and institutional framework governing human resource management has grown more complex, while retaining most of the basic features developed in the 1960s. Changes in the administrative framework have not kept pace with the magnitude of change in the workplace and the work force and in organizational requirements. Numerous studies over the last several decades have pointed to the need for fundamental changes in the regime of human resource management. Many of the concerns raised by these studies have gone unresolved, despite the considerable efforts of officials. While the core public service has become smaller, the weight and complexity of the human resource management regime have not lessened.

9.163 An opportunity exists now, as the public service begins to hire and groom a new generation of public servants in response to the large number of retirements anticipated during this decade. It is urgent that some of the long-standing structural and systemic issues be addressed quickly. Of particular priority is the reform of staffing, which is unduly slow and cumbersome and not sufficiently responsive to new realities.

9.164 Responsibilities within the core public service have evolved considerably. In particular, delegation to deputy ministers has increased significantly and managing human resources involves a more collective approach under the leadership of the Clerk of the Privy Council. If this approach is to prove effective in overcoming historical difficulties, it is essential that responsibilities be clearly assigned, appropriate resourcing and streamlined supporting structures and practices be put in place, and a full accounting of results be given. It is essential that deputies be

An efficient and effective public service is essential to the well-being of the nation.

clearly accountable for human resource management — for a healthy workplace and a highly competent work force. This will improve the accountability of managers and supervisors at all levels for their planning, decisions and actions. An enduring commitment to achieving the necessary cultural change is imperative.

9.165 Reporting to Parliament on performance in human resource management needs to improve significantly. To exercise its stewardship for this aspect of government operations, Parliament needs to get better information on how systems perform and how senior managers discharge their responsibilities. There is a pressing need for the Treasury Board Secretariat and the Public Service Commission to strengthen reporting to Parliament on their respective responsibilities for human resource management.

Reporting to Parliament on performance in human resource management needs to improve significantly.

9.166 The Public Service Commission has undertaken a number of reviews to assess how it can fulfil its mandate more effectively. An important part of its mandate requires it to act on behalf of Parliament to ensure the protection of a non-partisan system of merit in the public service. The Commission needs to engage in active dialogue with Parliament on how it balances its different responsibilities and whether changes in its role are desirable.

9.167 The government needs to give attention to simplifying the current legislative and administrative framework for human resource management, increasing the transparency of the regime's operations and engaging Parliament in making the changes that this will require.

Government's response: *We agree on the importance of a strong human resource management framework and the attention the Auditor General has drawn to it. As indicated in the chapter, the Government of Canada recognized the importance of the health of the public service to building a higher quality of life for all Canadians, in the October 1999 Speech from the Throne.*

We are considerably more optimistic than the Auditor General on such matters as collective and individual deputy minister responsibility, accomplishments in staffing reform, and the flexibility inherent in the current legislative framework. Several other recent initiatives effectively "modernize" human resource management without requiring legislative change. The simplification of job classification and the follow-up to the employee survey are two examples. In addition, work is under way at the COSO subcommittees on Recruitment, Workplace Well-Being, and Learning and Development to identify action items and specific areas where progress on recruitment, retention and learning can be made in the short, medium and long terms.

Ensuring that tomorrow's public service continues to meet the needs of Canadians is a present challenge for all of us, and must remain our common goal in any evaluation of human resource management systems. The Auditor General's recognition of this challenge is an encouragement.

Public Service Commission's supplementary response: *In addition, the Public Service Commission would like to underline that in order for Canadians to have confidence in the competence and representativeness and the non-partisan nature of their public service, a high standard of transparency and equity in staffing processes is required. Thus, efficiency, while unquestionably important, forms part of a larger balance of values. For our part, we are seeking to strengthen the staffing system by putting emphasis on the values that lie behind the rules. In so doing, we have benefited from consultations with several key stakeholders, including employee representatives, and have signalled our desire to engage in a dialogue with Parliament.*

About the Study

Objective

The objective of the study was to identify problems with roles and responsibilities and related accountabilities for human resource management, and changes needed to enhance the current and future capacity of the public service to serve ministers and the Canadian public in a rapidly changing environment.

Scope

The scope of this study was the human resource management regime in that part of the federal public sector referred to as the "core" public service, — for which the Treasury Board, acting on behalf of the government, is the employer. This includes 20 departments and some 60 agencies that are also subject to the authority of the Public Service Commission.

The study focussed on the structures governing human resource management — that is, the legislative framework and the roles and responsibilities of key players such as the Treasury Board and its Secretariat, the Public Service Commission, the Privy Council Office and line departments.

Federal public sector organizations excluded from the scope of the study were the "separate employers" under the *Public Service Staff Relations Act*, as well as the military and Crown corporations. The study did not examine the interaction between "the employer" and management, and the public service unions.

In addition to an extensive review of documentation, and reliance on earlier work of the Office, this study involved interviews and discussions with deputy ministers and other senior officials, including the heads of human resources in large departments. We also interviewed several former senior officials.

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Appendix A

A Summary of the Roles and Responsibilities of Some of the Many Players in Human Resource Management in the Public Service

The players whose roles are discussed in the chapter are the Treasury Board and its Secretariat, the Privy Council Office under the direction of the Clerk, the Public Service Commission, departments and their deputy ministers, and the two key deputy ministerial committees — the Committee of Senior Officials (COSO) and the Treasury Board Secretariat Advisory Committee (TBSAC). There are numerous others that influence the management of human resources in the core public service. Some are briefly described below.

The National Joint Council (NJC)

The Council is a "consultative" body comprising representatives of the Treasury Board (acting as the "employer" for the core public service), a number of "separate employers," and bargaining agents. Its recommendations must be approved by the appropriate executive body of government. Established before the advent of collective bargaining, the Council is a forum for regular consultation on issues bearing on the efficiency of the public service and the well-being of its employees. The NJC deals with matters on which consultation is more efficient across the public service than at each bargaining table. These matters may include any benefit or condition of work that applies service-wide. Examples include travel, relocation, isolated post allowances, foreign service, work force adjustment, and benefit plans like health care and disability insurance. When the Council agrees to "consult" on a matter it is understood that, on approval, the matter either will be deemed to constitute a part of collective agreements or will result only in recommendations to the employer.

Bargaining Agents

Currently, 16 unions certified by the Public Service Staff Relations Board are authorized to represent particular groups of public servants in collective bargaining. The Public Service Alliance of Canada represents the largest number of public servants (approximately 116,000) and the Professional Institute of the Public Service of Canada represents another 31,000. No other bargaining agent represents more than 6,000 federal public servants, and most represent fewer than 1,000.

The Public Service Commission Advisory Council

Created in 1998, the Advisory Council provides a forum for Commissioners and senior Commission staff to discuss and consult on issues related to the *Public Service Employment Act*. The Council includes a representative of each of the public service bargaining agents and more than a dozen representatives of federal departments and agencies, with a Treasury Board observer. Meetings of the Council and its Steering Committee are co-chaired by a representative of the unions and of the departments. The Council has a number of working groups dealing with current issues such as mobility, recourse and merit.

Association of Professional Executives of the Public Services of Canada (APEX)

The Association represents the interests of executives and promotes management excellence and professionalism in the federal public service. It tracks current and emerging issues of concern to its members, gathers members' views and represents them to government decision makers. Membership in the Association is voluntary.

The Public Service Staff Relations Board

The Board is a quasi-judicial statutory tribunal, responsible for administration of the *Public Service Staff Relations Act*. Its responsibilities include such matters as determining bargaining units, unfair labour practices, certifying and

decertifying of bargaining agents, adjudication of rights disputes (grievances not resolved satisfactorily in the employee's department) mediation services for grievances, complaints and collective bargaining disputes, and generally providing an administrative structure in which the rights and responsibilities of the employer and employees in the federal public service may be exercised and/or enforced.

The Commissioner of Official Languages

The Treasury Board is responsible for providing a policy framework to ensure that departments and agencies meet the requirements of the *Official Languages Act*. The Commissioner is an ombudsman, responsible under the *Official Languages Act* to protect:

- the rights of members of the public to communicate in either official language with federal institutions and to receive services from them as provided for in the Act and its regulations;
- the right of federal employees to work in the official language of their choice in designated regions; and
- the right of English-speaking and French-speaking Canadians to equal opportunities for employment and advancement in federal institutions.

Official language requirements must be established for positions in the public service, and the ability of public servants to meet them must be assessed. The Commissioner's office conducts audits and studies of performance in departments and agencies and investigates individual complaints. It makes recommendations for corrective action, appealing to the Federal Court on behalf of complainants when all other recourse has been exhausted.

The Privacy Commissioner of Canada

The Privacy Commissioner is an ombudsman, appointed by and accountable to Parliament, who monitors the government's collection, use and disclosure of the personal information of individuals, and its handling of individuals' requests to see their records. The *Privacy Act* gives the Commissioner powers to investigate individual complaints, to launch his own complaints, and to audit compliance with the Act.

The Information Commissioner

The Commissioner deals with complaints from people who believe they have been denied rights under the *Access to Information Act*. The Commissioner is an independent ombudsman with investigative powers, who mediates between complainants and government institutions. The head of a government institution may, in certain circumstances, refuse to disclose a record that contains plans related to the management of personnel or the administration of the institution. This does not apply to decisions made in exercising a discretionary power or an adjudicative function that affects the rights of a person.

The Canadian Human Rights Commission

The Commission was established as an agency reporting to Parliament to administer the *Canadian Human Rights Act* and deal with related complaints. An example of the latter is the 1999 pay equity decision, which found that the job classification and evaluation system in the federal public service was discriminatory on the basis of gender, and thus in contravention of the Act. The Commission is also mandated to ensure that the requirements of the *Employment Equity Act* are met by all federal departments and agencies as well as Crown corporations and federally regulated private sector companies. To that end, the Commission conducts audits of these entities.

The Canadian Centre for Management Development

The Centre was created in 1988 under an order-in-council, and became a departmental corporation under legislation passed in 1991.

Under its Act, the Centre's objectives include:

- encouraging pride and excellence in the management of the public service and fostering among managers a sense of the purposes, values and traditions of the public service; and
- helping to ensure the growth and development of managers and ensuring that they have the skills and knowledge required to manage staff effectively, including leadership, motivational and communications skills.

The minister responsible for the Centre is the Prime Minister. The Centre is managed by a President, having the rank and status of a deputy minister, under the direction of a board of governors. The board comprises up to 15 governors, including the Clerk of the Privy Council as the ex officio chair, and equal numbers of persons who are employed in the public service and persons who are not. The former include, as ex officio members, the President of the Centre, the Secretary of the Treasury Board, and the President of the Public Service Commission.

In developing the programs and studies of the Centre, the President is required to take government policies into consideration, along with public service management training needs and priorities as determined by the Treasury Board.

The Leadership Network

The Leadership Network was created by order-in-council in June 1998 to maintain the momentum of the public service renewal initiative, La Relève. It is included in the portfolio of the Prime Minister. The Head of The Leadership Network receives functional direction from the Committee of Senior Officials (COSO). It has three specific areas of responsibility:

- to facilitate the collective management of the community of assistant deputy ministers (ADMs) as a corporate resource (this includes providing career counselling and advisory services related to entry into the ADM ranks, assignments, personal and career development strategies, and learning and promotion opportunities);
- to facilitate internal communication and dialogue on renewal by promoting, developing and supporting networks of leaders at all levels in the public service (for example, networks of middle managers and of federal regional officials); and
- to help consolidate La Relève successes, share lessons learned and foster change initiatives of departments and agencies, functional communities and regions.

Federal Regional Councils

In the early 1980s, Regional Councils were formed primarily to facilitate co-ordination of federal economic programs at the regional level. These have evolved considerably, particularly in the last several years, and play a role at the regional level in communication and information sharing, in administrative and human resource management matters, and in liaison with provincial counterparts. Today, there is a Council of senior federal officials in each province. Their roles and the extent of their development vary, and continue to evolve. They now serve as sounding boards for proposed central agency policies. Most have established human resource management subcommittees to deal with work force adjustment and other issues. For example, some regions have created interdepartmental assignment programs, career centres, mentoring and middle managers' programs.

The Human Resources Council

The Council is mandated by the heads of human resources in departments and agencies to contribute to determining strategic direction for the management of human resources in the public service. It provides leadership on the renewal

and development of the human resources community and on the development of innovative solutions to human resource management issues. The deputy minister "champion" who acts as spokesperson on human resources at senior management forums looks to the Council for advice, as do others such as the Chief Human Resources Officer of the Treasury Board Secretariat. The Council (formed in 1992 as the Personnel Renewal Council) comprises about 20 officials, including 12 heads of personnel and non-voting, ex officio representatives of the central agencies and other bodies. The members who are heads of personnel represent the interests of all departments and the human resource management community. Ex officio members represent the Treasury Board Secretariat, the Public Service Commission, the Privy Council Office, the Canadian Centre for Management Development, The Leadership Network, the Human Resources Learning Advisory Panel and the Human Resources Community Secretariat (the latter two are described below). The Council relies for funding primarily on contributions by departments and agencies. Its members lead or participate in numerous other committees or working groups.

The Human Resources Community Secretariat

At 31 March 1998, the human resources community in the public service consisted of approximately 7,000 full-time staff (down from about 11,000 in 1990). Some 2,500 were human resource management specialists, supported by about 2,400 clerks and 1,300 administrative officers working in areas such as pay and benefits administration and staffing. A Human Resources Community Secretariat (HRCS) was formed in 1998 to play an advocacy role for the human resources community and to pursue implementation of the community's La Relève action plan. HRCS is a joint initiative of the Human Resources Council, the Treasury Board Secretariat and the Public Service Commission. It operates under the leadership of the Treasury Board Secretariat's Chief Human Resources Officer.

Learning Advisory Panels

Learning Advisory Panels were created as a result of a recommendation by the Treasury Board Secretariat Advisory Committee. The purpose of such panels is to focus on the learning needs of specific public service communities, such as the policy or the communications communities. A Learning Advisory Panel for the Human Resource Community was formed in 1997 to help guide the development of this group's corporate learning agenda. It comprises about a dozen senior officials with human resource management responsibilities in departments and central agencies. It is supported by a working group of more junior officials.

Advisory Committee on Senior Level Retention and Compensation

This Committee (the Strong Committee, named after its chair) comprises seven private sector senior executives. It was established in 1997 for a term of three years, to provide independent advice to the President of the Treasury Board on retention and compensation issues for executives, deputy ministers and other Governor-in-Council appointees in the federal public sector. The Committee is charged with providing reports (to be made public by the Minister) setting out a long-term strategy to meet senior-level human resource management needs, compensation strategies and principles, and recommendations on overall management. This includes such matters as human resource policies and programs, terms and conditions of employment, classification and compensation issues, including rates of pay and rewards and recognition.

Appendix B

Federal Government and Other Studies Related to Public Service Human Resource Management, 1967–2000

1967 Royal Commission on Bilingualism and Biculturalism, which led to the adoption of the *Official Languages Act* and related public service policies.

1968 Advisory Group on Executive Compensation, created in 1968 to advise the Prime Minister on compensation and related matters. This committee was the forerunner of the current Strong Committee on executive compensation and retention.

1970 The Royal Commission on the Status of Women in Canada, which made recommendations on equality of opportunity for women in the public service.

1974 "Employer–Employee Relations in the Public Service of Canada". The Finkelman Report proposed legislative change to the *Public Service Staff Relations Act* and the *Public Service Employment Act*. A Special Joint House Committee on Employer–Employee Relations in the Public Service that studied the report in detail endorsed many of its findings.

1974 "Problems for Personnel Management in the Public Service". A report on managers' concerns about public service personnel management.

1975 "A Study of Compensation in the Public Service of Canada". A report by a departmental task force of Treasury Board on classification and compensation issues.

1976 "Native People and Employment in the Public Service". A study by the Public Service Commission on employment of native people in the public service.

1979 "Classification in the Canadian Public Service". A Treasury Board Secretariat study of problems related to high levels of misclassification and inadequate accountability for classification decisions.

1979 "Special Committee on the Review of Personnel Management and the Merit Principle". The D'Avignon Committee outlined significant issues related to the human resource management framework in the public service and called for a clarification of roles and responsibilities, including changes to the central government machinery.

1979 "Royal Commission on Financial Management and Accountability". Although the Lambert Commission focussed mainly on financial management, it raised many issues related to the personnel function in government departments.

1981 "Report of Study Group on Improved Personnel Administration in the Public Service" by Treasury Board Secretariat, assessed the "health" of the personnel community in the public service.

1981 "Royal Commission on Conditions of Foreign Service" highlighted problems with the management of Foreign Service personnel.

1982 "Classification Reforms for the 1980s: A Policy Review of the Classification System" by the Treasury Board. Study of the classification system, its ability to serve line managers and the impact of the *Canadian Human Rights Act*.

1984 "Ethical Conduct in the Public Sector", a report by the Task Force on Conflict of Interest. The report led to the adoption of conflict-of-interest and post-employment guidelines for public servants.

1984 Commission of Inquiry on Equality in Employment, an examination of affirmative action programs in the public service and the need to eliminate workplace barriers.

1984 Privy Council Office Task Force on the *Public Service Employment Act*, which was mandated to recommend changes to staffing and employment policy.

1984 "Efficiency and Effectiveness of Staffing Study", by the Public Service Commission, a study initiated as part of the Commission's efforts to improve staffing delivery.

1984 "Report of the Special Committee on Participation of Visible Minorities in Canadian Society" led to the adoption of employment equity programs in the public service.

1986 "Cost/Benefit Analysis of Centralizing the Classification System". A study of alternatives undertaken by the Treasury Board Secretariat, in response to issues raised by the Public Accounts Committee about the high levels of misclassification and managers' lack of accountability for classification decisions.

1987 Committee on Governing Values, a committee of deputy ministers that led to the development of a "service philosophy" and was a precursor of PS 2000.

1990 "Beneath the Veneer", a report by the Task Force on Barriers to Women in the Public Service, recommended solutions to barriers encountered by women. This report was followed up in 1995 by another study, "Looking to the Future: Challenging the Cultural and Attitudinal Barriers to Women in the Public Service", which indicated that some progress had been made but much remained to be done.

1990 Reports by the deputy minister task forces on Public Service 2000, seven of which examined aspects of human resource management. These led to the White Paper on Public Service 2000: The Renewal of the Public Service of Canada.

1995 "The Way Ahead for Human Resources Management in the Public Service", a paper prepared by the Personnel Renewal Council on setting new directions for the management of people in the public service.

1996 "A Strong Foundation — The Report of the Task Force on Public Service Values and Ethics", one of several reports on contemporary public service management issues by task forces led by or comprising deputy ministers. Other reports examined topics such as "Strengthening Our Policy Capacity."

1996 "Report of the Consultative Review on Staffing", a report for the Public Service Commission that examined changes needed in the staffing process to meet current and emerging needs.

1997 The La Relève Task Force, created by the Clerk of the Privy Council in 1997 to advance recommendations on renewing and rejuvenating the public service; reported later that year. This led to the Privy Council document "La Relève: A Commitment to Action." The Task Force was subsequently integrated into the operations of The Leadership Network, which produced a La Relève Progress Report in 1998.

1997 "Work Habits, Working Conditions and the Health Status of the Executive Cadre in the Public Service of Canada", a study by the Association of Professional Executives of the Public Service of Canada (APEX) on the impact of working conditions and the working environment on the health of public service executives.

1997 "Workforce of the Future: Valuing Our People" an examination of the evolving federal public service workplace based on consultations with about 500 employees, primarily administrative support staff. The majority of its recommendations could be implemented by individual managers working with their employees.

1998 Advisory Committee on Senior Level Retention and Compensation, or the Strong Committee. Its mandate is to provide independent advice to the President of the Treasury Board concerning executives, deputy ministers and other Governor-in-Council appointees. The Committee has dealt with developing long-term strategies for human resource management, including compensation strategies.

1998 "Partnering for People", report of the COSO subcommittee on the human resource community. It outlined deficiencies in the management and capacity of the human resource management specialist community, and in human resource management more broadly.

1998 "Facing the Challenge — Recruiting the Next Generation of University Graduates to the Public Service", a Public Service Commission survey of university students about their career choices. The survey indicated a low level of interest in working in the public service.

1999 "Building a World Class Workforce — Career Development in the Federal Public Service" (The Duxbury Report). The report presented the results of a study of career development as perceived by knowledge workers in the federal public service.

1999 "Turning Results Into Action — Public Service Employee Survey 1999", a survey of federal public servants on a variety of issues, from compensation to career development.

2000 "The Comparative Analysis of Modern Human Resources Management Regimes in Canada", a study prepared for the Treasury Board Secretariat to benchmark human resource management practices in the federal public service with best practices. To be published later in 2000.

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